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FIRST VICE PRESIDENT
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CABLE ADDRESS "WHITEWELD"

December 9th, 1977

Mr. Clark Gruening, Chairman
House Permanent Fund Committee

Since the House Special Committee on the Permanent Fund is in the final stages of structuring legislation for consideration by the 1978 legislature, it is time to consider the use of the income of this "Permanent Fund".

The provisions of the Permanent Fund Constitutional Amendment include that "the income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law". According to the best estimates of the Department of Revenue, the minimum amount (25%) of the funds received as mineral lease rentals, royalties and other payments will result in an accumulation by 1985 of some \$1.8 billion. The investment income from that amount, at an average 7% rate of return, would produce approximately \$126,000,000 in any one year. As the Permanent Fund continues to grow, its increased capital will provide additional annual income in excess of the aforementioned figure, however, for the sake of perspective, the ensuing discussion will be confined to the \$126,000,000 projected income.

If the estimates are correct as to the principal accumulated in the Permanent Fund by 1985 at a 25% rate, the remaining balance accumulated in the General Fund should amount to some \$5.4 billion. The effect of the addition of \$126,000,000 to such an accumulation would increase the 1985 accumulation by approximately 2%. Such an increase is minimal in relation to a General Fund accumulation of the magnitude as anticipated.

Therefore, the income of the Permanent Fund should be dedicated to doing more than just adding a small increment to the General Fund. Even though it may eventually return to the Permanent Fund, it should be channeled into projects with revenue producing capability that provide benefits for the majority of Alaskans, and simultaneously allow for long-term financings at the lowest possible interest rate.

The House Special Committee, during the conduct of public hearings, has received many proposals for the use of Permanent Fund's income. Many of these proposals appear to be meritorious from numerous points of view. However, in turn, many of these same proposals would seem to be better responded to through

250 million 62.5%

the actions of the legislature and addressed through the General Fund as opposed to the Permanent Fund's income.

Essential to the lifestyle of all modern societies is the availability of electric power. Advocates of no growth, modest growth, rapid growth or controlled growth all share a need for power. The availability of power often determines whether desirable economic growth can take place. The cost of such power is of course, an important element. All other things considered, the cost of power influences the future direction in any modern society.

Whether power generation occurs through capital-intensive projects (hydro-electric) or fuel-intensive projects (coal or gas-fired) its financing is generally through issuance of long-term debt. Production costs of hydro are generally stable since the fuel (water) costs are practically non-existent. Production costs of coal or gas-fired facilities are subject to continually escalating costs of the fuel necessary for the electric generation.

Long-term debt sold for the construction of either type of facility, without regard to the operation and maintenance expense of each, must be amortized through the service of debt; principal and interest payments annually until the debt is extinguished. The total cost of the debt service is affected by the rate of interest which investors demand for the long term loan of money.

A 40 year debt instrument in the amount of \$100,000,000, bearing an interest rate of 6½% will require a level debt service (principal and interest) of \$7,069,400 annually to liquidate the debt. If the interest rate is 5½%, the annual debt service requirement is \$6,232,000. This represents a difference of \$837,400 per year and over a 40 year period involves a saving of \$33,496,000.

Since debt service is a major factor in determining the rates users must pay for electric usage, the rate of interest at which a debt instrument is financed is a significant element in the total cost to the consumer. Bonds payable solely from the revenues of the utility are judged by investors on their credit-worthiness. The more credit-worthy, the lower the interest rate, the less credit-worthy, the higher the interest rate.

Alaska possesses many sites which are suitable for hydro-electric generating facilities. However, in some instances, these sites are not located near the population centers which require the power generated. Due to its topography, long-range transmission lines bringing power to the load-centers are often not feasible. In other instances, the best development of such capital-intensive projects may require large-scale projects which in the near-term, produce a surplus of power. Smaller scale generation facilities using coal or gas-fired power production are required in those areas without large load demands or without good potential hydro sites. The fact that the latter use a precious commodity which is non-renewable is not the point. If the power is needed, it must be produced. Nevertheless, if the project can be financed at a lower interest cost, a benefit will accrue to the user through a lower cost of service.

It is suggested that the future power needs of Alaskans can be delivered at a lower cost whether such power is provided through hydro or fossil fuels. The ability to affect the interest rate on whatever long-term project is financed, can accomplish this. The following paragraphs suggests how this can be done without depriving the Permanent Fund of other uses of its income.

The income from the Permanent Fund will be derived from "investment grade" securities and as such represents a highly reliable and secure cash flow. This annual cash flow can be dedicated to assuring that principal and interest requirements on bonds issued to construct revenue producing power projects are met in the event of a revenue short-fall from the revenue producing project. The effect will make it possible for the revenue bonds to receive a high credit rating and high evaluation in the market place which will result in a significantly lower cost of borrowing for the project construction. At the end of a given period, (debt service year or monthly), income from the Permanent Fund dedicated to the revenue bonds debt service requirements not needed is released to the General Fund or for any other purpose directed by law.

The dedication of Permanent Fund income to revenue bond debt service would not be accomplished in the legislation itself, but rather in a "guarantee agreement" between the Permanent Fund and the entity issuing the revenue bonds and the "guarantee agreement" would actually appear on the face of the debt instrument. From the investor and rating agency point of view, if the guarantee is in the legislation it is legally subject to change by succeeding legislatures. If the guarantee is in an agreement as part of the revenue bond issue it is dedicated for as long as the bonds are outstanding.

It must be assumed for the purpose of this guarantee arrangement that the Permanent Fund will receive 25% of the oil and gas income because of the terms of the Constitutional Amendment. Based on that assumption, estimates (by the State) of the size of the Permanent Fund in 1985 will be \$1,800,000,000.

A reasonable assumption of 7% income from investment produces an annual cash flow available for guarantees of \$126,000,000. An annual cash flow of this magnitude, assuming a 6% interest cost on guaranteed bond issues, will support approximately \$1,800,000,000 of bonds.

The various projects to be supported by the guarantee would be financed by revenue bonds of any state agency or any subdivision of government in Alaska for electric generation and transmission. Each bond issue would capitalize interest during construction and fund its own debt service reserve to conform to the demands of the market for such bonds at the time of financing.

The act providing for a guarantee should be broad in form. The covenants relating to, and provisions of, each project will be structured into each bond issue.

There might be some merit in including in the act certain findings and directives to the Board of the Permanent Fund, but it probably is more appropriate for the Board to outline its own guidelines as it relates to such guarantee on bonds of projects to be financed in its administrative rules and regulations. By this is meant, for example, considerations by the legislature in its deliberations leading to the approval of a project such as economic need, economic feasibility, geographic locations, social benefit, impact on locality, etc.

A draft of a bill has been provided to your committee which would, subject to redraft to conform to custom, constitutional requirements, the Permanent Fund Act and language usage in Alaska, creates the mechanism for such a debt guarantee program. A brief analysis of this draft follows.

Section 1. Creates the mechanism by authorizing the Board of the Permanent Fund to enter into guarantee agreements. Limits the guarantee to income only. Provides for agreements with any entity of state or local government. Provides guarantee of principal payments, sinking fund payments and interest but prevents use of Permanent Fund income for optional early retirement of guaranteed debt. Limits the guarantee to electric generation and transmission. Leaves the details of guarantee agreements to the Board of Trustees.

Section 2. In effect limits the amount of debt that can be guaranteed. This adds to the credit-worthiness of the guarantee from the lenders point of view. Depending somewhat on the actual portfolio of investments in the Permanent Fund, it is important to consider whether or not to limit the total of guarantees to something less than 100% of the Fund income. This could be done in the Act, which does not happen in this draft, or it could be a policy matter of the Board of the Fund.


Section 3. Provides that the guarantee article appear on the debt instrument which clearly establishes that it survives as long as the bonds are outstanding. This definitely is stronger and distinguishes the guarantee from any similarity to the so called "moral-obligation" pledge.

Section 4. Provides that a guarantee agreement can be entered into on the debt of projects only after approval by the legislature. Part of the thrust of this section is in contemplation of a centrally controlled State-wide power development plan that considers the needs and best interest of all of Alaska.

Sections 5 & 6 These sections are simply "boiler-plate" provisions.

The draft bill clearly does not contemplate any subsidy of electric costs to energy consumers. However, there is no prohibition that any subsidy to energy users deemed to be appropriate by the State can be accomplished by the legislature through appropriation from the General Fund or other sources which would not interfere with the value of this guarantee program to finance the capital costs of meeting the power needs of Alaska.

Respectfully yours,

A handwritten signature in cursive script, appearing to read 'Theodore P. Swick', with a long horizontal flourish extending to the right.

Theodore P. Swick

TPS/vmr

HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

December 12 and 13, 1977

AGENDA

1. Report, Institute of Social and Economic Research
2. Discussion, Permanent Fund draft legislation
3. Discussion, Renewable Resources Development Fund draft

Sec. 2 AS 37.07.020 is amended by adding a new paragraph to read:

(b) The governor shall annually report to the legislature through the investment oversight committee the long range fiscal and economic consequences of: (1) alternate levels of capitalization of the investment funds of the state, and (2) alternative uses of the general fund surplus.

24.20.670 (b)

(6) In conjunction with the finance committee of each house recommend annually to the legislature the use of the general fund surplus and the income from the Permanent Fund.

(5) Present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.09.020(b) with recommendations for any needed legislation.

Findings: The legislature finds that there is a substantial need for oversight of the performance of all agencies of the state which perform lending, borrowing or investment functions since these functions do not receive the detailed review that other expenditures of public money are subject to and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to ^{statutory} legislative intent, and the impact of the performance on the economy and treasury of the state and the public good in their policy and performances so that the need for new legislation is recognized when appropriate and the factual basis for legislative change is present.

Purposes: The purposes of the investment oversight committee are: (a) to monitor and report: (1) the performance of the agencies of the state which perform lending, borrowing or investment functions, (2) the extent of which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens, (3) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal investment and financial planning.

(b) to hold these agencies accountable to ^{statutory} legislative intent in their performance by recommending where appropriate changes in policy to the agencies or where appropriate changes in legislation to the legislature.

(c) to annually review the extent of capitalization of the investment funds of the state and alternative uses of the general fund surplus and recommend needed legislation.

'The Dutch Disease'

Holland's Gas Money Has Brought Affluence And Economic Woes

Spending on Social Programs At Expense of Industry Hurts Profits and Jobs

Why Guilder Slows Exports

By PHILIP REVZIN

Staff Reporter of THE WALL STREET JOURNAL

AMSTERDAM--The British call it "the Dutch disease," and are determined not to catch it themselves. The Norwegians are increasingly wary of the ailment. And the Dutch are only now realizing the extent of their illness.

At first glance the Dutch disease doesn't appear to be a malady at all, because its symptoms are high incomes, advanced living standards and generous social benefits. Much of this is the result of the discovery in 1959 of huge reserves of natural gas in the province of Groningen in northern Holland. By the time these reserves were on their way to market in the late 1960s, a growing world energy demand provided Holland with a rich source of revenue.

Holland's problems arise from the fact that these revenues were used to make the Dutch social-security system one of the best in the world and to build roads, subsidize schools and hospitals and to improve the nationalized rail system. They weren't used for job-creating capital investments. Businessmen say that because they haven't shared in the gas bonanza and because of the taxes and contributions they have had to pay to finance the social benefits, their profits have been sorely squeezed.

"A Curse in Disguise"

As a result, unemployment is rising, and industry says it won't be able to provide enough jobs in the future. Capital investment is no longer growing, and the Dutch are facing a leveling off of living standards. Compounding the problem, the gas money has made the Dutch guilder one of the world's strongest currencies. This means that Dutch products often are too expensive to compete in the export market. "Natural gas is a curse in disguise," Jelle Zijlstra, head of the Dutch Central Bank, said recently.

Economists in Britain and Norway, both of which have substantial North Sea reserves of oil and natural gas, are warning their countries not to make the same mistakes. They urge that plans be made to invest much of the energy revenues in capital projects. In Britain a committee composed of business, labor and government leaders is meeting to discuss uses for the oil money.

The Dutch began signing contracts for their natural gas in the 1960s because they were fearful that nuclear power would make gas obsolete as a fuel source. Some of these export contracts won't run out until the end of the century.

Last year, gas revenues amounted to about \$3 billion, or 11% of general government revenues, and the percentage is expected to be about the same this year. Revenues have been boosted both by the government's raising of gas prices, to stay in line with world oil prices, and by renegotiation of oil-company contracts. Royal Dutch/Shell and Exxon's Esso subsidiary, which are under contract to develop the gas reserves, originally took 30% of the profits. Now they are taking only 5%, with the balance going to the government.

A \$2.5 Billion Surplus

All of this gas money, from exports as well as from the substitution of domestic gas for imported oil, kept the Dutch international balance of payments on current account solidly in the black between 1972 and early this year. The excess of monetary inflow over outflow gave Holland a surplus of about \$2.5 billion last year and inspired such confidence in international money markets that the guilder has risen in value by more than 30% against the dollar since 1971.

The balance of payments showed a small deficit in the first quarter this year, probably due to decreased export demand, but economists say it swung back into the surplus at mid-year, and it will end the year in the black.

Yet many economists are sounding a warning note amid this prosperity. "Everything has been going so good for so long that I'm afraid it will take a real catastrophe before people think about our genuine problems," says Victor Halberstadt, professor of public finance at the University of Leiden.

Already the signs are evident. Profits, as a percentage of return on investment, have slipped by an estimated 50% to 15% since 1970 for most companies. The 6% unemployment rate is moderate by U.S. standards, but much higher than the Dutch are used to. A prominent Dutch banker recently estimated that the government's use of gas revenues for social benefits has cost 300,000 jobs since 1970.

Weathering the Recession

This spending has risen by more than 13% since the early 1960s and now is the highest of any industrialized non-Communist nation. The central government's budget this year will be about \$3 billion, up about 8.5% from \$2.6 billion in 1976. Together with transfer payments, such as social-security benefits, government spending now represents more than 50% of the volume of the goods and services produced in Holland.

Certainly, this public spending saw 14 million Dutch people through the worst of the recession with still-rising living standards. But it also allowed them and their government to ignore the serious economic problems that were developing under the gas bubble.

"The politicians mortgaged our future by using the gas money for the simplest, most popular social programs," says a prominent

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'The Dutch Disease': Gas Revenues Cause Economic Woes for Holland

Continued From First Page

Dutch banker. "If only a bit more of the money had been given to private industry, we would have much fewer problems."

Businessmen say that some of the gas revenues should have been earmarked for direct grants to big manufacturers in key industries and for tax incentives and concessions to help small business expand.

Instead, Dutch firms have been asked to contribute more and more of the cost of public programs, through the higher taxes and social-security contributions. This so-called collective burden rose by an average of 1.9% a year from 1970 to 1975 (total tax revenues are 52.1% of the national income, among the highest levels in the industrialized world). Last year the government purposely held the increase to 1% of national income. Because of wage increases and increased employer contributions for benefits, labor costs will rise by 3% this year, more than in most countries competing against Dutch products in the export market. Offsetting these costs somewhat is the productivity rate, which rose by 10% last year.

Dutch exports also are being badly hurt by the strength of the guilder. Holland traditionally has imported most of its raw materials and has exported more than 40% of its manufactured goods. The appreciation of the guilder has made imports cheaper and has helped keep inflation down to its present level of about 6.5%. But it also has made exports much more expensive. "We can't sell our products abroad," complains R. C. Spinosa Cattella, a member of the management board of N.V. Philips, the multinational electronics giant. "We've priced ourselves right out of the market."

The government recently said it expects no growth in Dutch exports this year, a revision of its earlier forecast of a 6% gain over last year. VNO, a Dutch business group, believes that exports will grow by only 3% next year.

All this has made Dutch businessmen jittery about new investment in the country. Although the volume of business investment probably will rise about 5% this year, Amro

Bank, one of Holland's largest financial institutions, projects no growth for next year. Many companies, including Philips, are making few capital investments. "We are maintaining our overall investment level, but spending it on improvements of our existing facilities," says Philips's Mr. Spinosa Cattella. Smaller companies say they simply don't have the cash to invest.

Government and industry are now casting around for ways of dealing with this malaise. Businessmen have proposed a program of tax cuts, a cut in the increase in public spending beginning next year and a slight loosening of price controls to improve profits.

Government ministers say they are planning to steer the structure of the Dutch economy away from traditional industries, such as textiles and shipbuilding, which, in addition to being big energy users, require heavy capital investment. Finance minister Willem Duisenberg says the emphasis will now be on high-technology industries, such as environmental design and electronics, through selective grants and government encouragement.

But none of these measures can be implemented until a solid government is formed. Holland has been without a government for nearly eight months. The government of Socialist Premier Joop den Uyl fell last March. After an inconclusive election, attempts to form a workable coalition from among 25 political parties failed. In recent days, however, two right-of-center parties, the Christian Democrats and the Liberals, apparently have reached agreement to form a new government.

The new government's major priority will be to deal with the worsening unemployment problem. Most estimates put unemployment next year at 250,000, up from 210,000 at present. But economists say that the true unemployment figure is hidden because it would include many of the 350,000 workers receiving disability benefits under Holland's liberal system.

Unemployment benefits also are generous. Workers receive benefits equal to 80% of their salary for the first year of unemployment and 70% for the next two years.

Economists and politicians are fearful that Holland is facing a future of rising unemployment and little or no economic

growth. The growth of the gross national product has slowed to under 3% this year, compared with last year's growth of 5%. The Amro Bank forecasts a growth rate of 2.5% for next year.

"No politician can say publicly that public spending, and therefore living standards and benefits, will actually be cut in the next few years," says a Dutch politician. The most that can be conceded, says a minister, is that "there will be no real increase in disposable income for the next five years." This will go down poorly with Dutch workers who over the past few years have seen average per-capita disposable income rise by more than 2% a year.

Ironically, Holland's main hope for the future lies in the commodity that caused all this economic trouble in the first place: natural gas. Total revenues for natural gas will peak this year, the first year that Holland's North Sea gas discoveries won't equal consumption, and the year-to-year increase in gas revenues will decrease from here on. But there is still plenty of gas around.

Government estimates put Holland's total reserves of natural gas at more than 2.3 trillion cubic meters, or 80.5 trillion cubic feet, enough to last well into the 21st Century. Rudolf Lubbers, the minister of economic affairs, says that Groningen production is

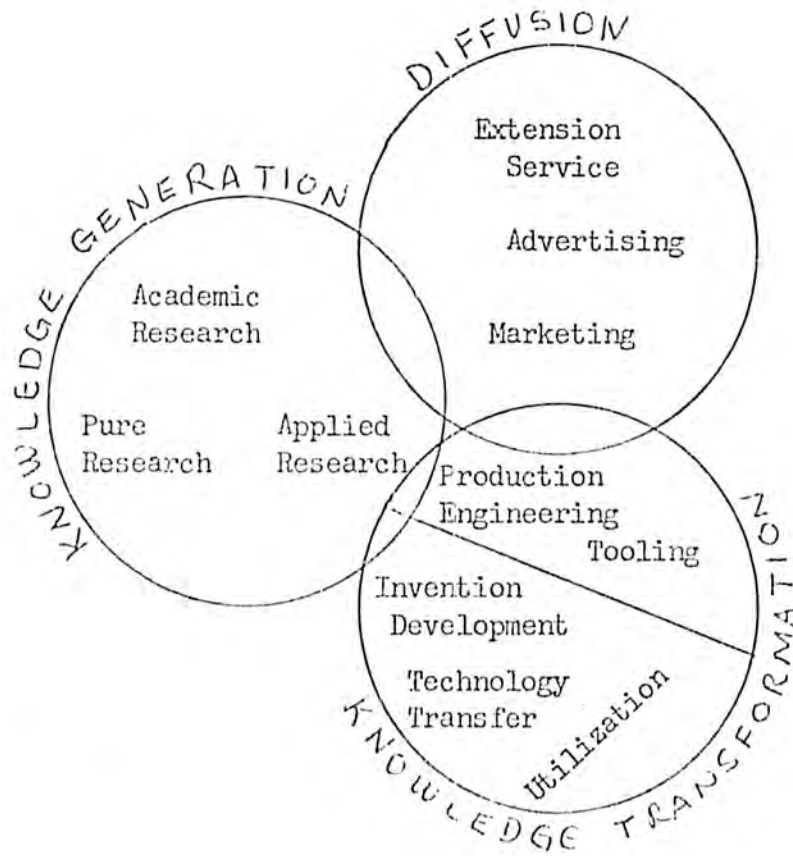
being slowed to make sure that the fields aren't rapidly depleted.

The government is committed to the long-term foreign contracts that it signed in the early 1960s. But some of this gas will be provided through the 4 billion cubic meters, or 140 billion cubic feet, of gas that Holland will be buying from Algeria and Norway over the next 20 years.

The government also is hoping to conserve its gas by raising its domestic price. Dutch users have been paying about 30% less for domestic gas than for other energy sources. This difference will be phased out over several years.

APPENDIX I

FIGURE 1: THE INNOVATION PROCESS



Sec. 37 13.130. Powers And Duties

- (a) The board should discharge its duty solely in the interest of the Permanent Fund for the exclusive purpose of providing them with benefits and defraying the reasonable expenses of administering the Fund. The board and its delegates must exercise the care, skill, prudence, and diligence under the prevailing circumstances that a prudent man acting in a like capacity and familiar with such matters would use in conducting a similar enterprise.
- (b) The board would seek diversification of Fund investments so as to minimize the risk of ~~large losses~~, unless under the circumstances, it is clearly prudent not to do so. Investments shall be selected in accordance with (f) of this section.
- (c) The board shall submit long-range and quarterly investment reports to the State Investment Oversight Committee.
- (d) The Fund may be used as collateral for approved programs.
- (e) The board shall employ an Executive Director to provide duties provided by law, and may employ or engage such expert consultants and technical or other assistants as it deems necessary.
- (f) Subject to (a) of this section the board may invest its assets in obligations of the United States or obligations for which the faith and credit of the United States are pledged for payment of principal and interest; loans secured by first liens on unencumbered realty or leasehold; and corporate stock and corporate obligations listed on a recognized stock exchange. No investment may be made in a security which is in default or in which default is imminent to principal or interest at the time of investment.

Hypothetical Case Based On Worse Bond Market
(1967-1971) And Stock Market (1972-1976) In Past 50 Years

Based on past ten years Fund 100% bonds through year 5 then 25% stocks through
year 10. Equal amounts each year.

<u>Year</u>		A			B			
		(1) <u>Bonds</u>	(2) <u>Stocks</u>	<u>Total</u>	<u>5 Yr. Moving Average</u>	<u>Assets of Fund at Market</u>		
					<u>Bonds</u>	<u>Stocks Index</u>	<u>Total</u>	
1967	1	5.51%	-	5.51%	5.51%	100	-	100
1968	2	6.18	-	6.18	5.85	89	-	89
1969	3	7.03	-	7.03	6.24	86	-	86
1970	4	8.04	-	8.04	6.69	84	-	84
1971	5	7.39	-	7.39	6.83	93	-	93
1972	6	7.21	2.84%	6.12	6.95	109	100	107
1973	7	7.44	3.06	6.34	6.98	105	98	103
1974	8	8.57	4.47	7.50	7.06	97	86	94
1975	9	8.83	4.31	7.70	6.99	94	90	93
1976	10	8.84	3.77	7.26	6.96	99	107	101

(1) AAA Moody Bond Yield

(2) Standard & Poor 500 Stock Dividend Yield

A) Actual Return based on interest and dividend received in that year to market value.

B) Return based on 5 years averaging of interest and dividends received to market value.

B is used to provide a steadier flow of income, less volatility than taking in current income.

Findings: The legislature finds that there is a substantial need for oversight of the performance of all agencies of the state which perform lending, borrowing or investment functions since these functions do not receive the detailed review that other expenditures of public money are subject to and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to ^{statutory} legislative intent, and the impact of the performance on the economy and treasury, ~~of the state, and the public good in their policy and performances~~ so ~~that the need for new legislation is recognized when appropriate and the factual basis for legislative change is present.~~

Purposes: The purposes of the investment oversight committee are: (a) to monitor and report: (1) the performance of the agencies of the state which perform lending, borrowing or investment functions, (2) the extent of which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens, (3) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal investment and financial planning.

(b) to hold these agencies accountable to ^{statutory} legislative intent in their performance by recommending where appropriate changes in policy to the agencies or where appropriate changes in legislation to the legislature.

(c) to annually review the extent of capitalization of the investment funds of the state and alternative uses of the general fund surplus and recommend needed legislation.

24.20.670 (b)

(6) In conjunction with the finance committee of each house recommend annually to the legislature the use of the general fund surplus and the income from the Permanent Fund.

(5) Present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.09.020(b) with recommendations for any needed legislation.

A BILL

For an act entitled: An Act providing for guarantees payable from certain income derived from the Alaska Permanent Fund of indebtedness issued by governmental agencies of the State for power projects.

Section 1. Subject to the approval by the legislature as provided in Section 4 hereof, the board of trustees of the Alaska Permanent Fund is hereby authorized to enter into agreements with any public authority of this State or any borough or other governmental agencies of this State, providing for a guarantee, payable solely from the income derived from the Alaska Permanent Fund established by AS _____ (other than income derived from the Alaska Enterprise Development Fund established by AS _____) of the payment when due, whether at maturity or by sinking fund redemption but not by acceleration of maturity, of the principal of and interest on bonds, notes or other indebtedness of such governmental agencies issued to finance a project or projects for construction of electric generating and related transmission facilities. Such agreements shall contain such terms, provisions and covenants in furtherance of the purposes of this act as said board of trustees shall determine.

Section 2. No bonds, notes or other indebtedness shall be guaranteed pursuant to this act unless said board of trustees shall determine that the debt service for any year with respect to all such bonds, notes and other indebtedness will not exceed the amount of annual income estimated by such board of trustees to be derived during such year from said Alaska Permanent Fund (other than income from said Alaska Enterprise Development Fund). Such determination shall be made by resolution of said board of trustees prior to the execution of any guarantee agreement pursuant to this act.

Section 3. Any bonds, notes or other indebtedness guaranteed pursuant to the act shall have on the face thereof an endorsement of such guarantee by the chairman of said board of trustees or any designee of such officer.

Section 4. No bonds, notes or other indebtedness shall be guaranteed by said board of trustees pursuant to the act until the facilities to be financed with the proceeds of such bonds, notes or other indebtedness have been approved by a joint resolution of the legislature.

Section 5. If any term or provision of this act shall be declared unconstitutional or ineffective in whole or in part by a court of competent jurisdiction, then to the extent that it is not unconstitutional or ineffective such term or provision shall be enforced and effectuated, nor shall such determination be deemed to invalidate the remaining terms or provisions hereof.

Section 6. This act shall take effect immediately.

Sec. 37.13.130. Powers And Duties

- (a) The board should discharge its duty solely in the interest of the Permanent Fund for the exclusive purpose of providing them with benefits and defraying the reasonable expenses of administering the Fund. The board and its delegates must exercise the care, skill, prudence, and diligence under the prevailing circumstances that a prudent man acting in a like capacity and familiar with such matters would use in conducting a similar enterprise.
- (b) The board would seek diversification of Fund investments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. Investments shall be selected in accordance with (f) of this section.
- (c) The board shall submit long-range and quarterly investment reports to the State Investment Oversight Committee.
- (d) The Fund may be used as collateral for approved programs.
- (e) The board shall employ an Executive Director to provide duties provided by law, and may employ or engage such expert consultants and technical or other assistants as it deems necessary.
- (f) Subject to (a) of this section the board may invest its assets in obligations of the United States or obligations for which the faith and credit of the United States are pledged for payment of principal and interest; loans secured by first liens on unencumbered realty or leasehold; and corporate stock and corporate obligations listed on a recognized stock exchange. No investment may be made in a security which is in default or in which default is imminent to principal or interest at the time of investment.

It means what it sez ?

But does it say what it means ?

Dona - Means a "woman of rank"

TO: Clark Gruening, Chairman
House Permanent Fund Committee

FROM: Mike Doogan, A.A. *Tied*

SUBJECT: 12/5 draft

After reading the draft, I want to draw your attention, and possibly that of the committee, to several points. These points do not include unresolved matters such as the structure of the board of trustees, the investment fund investment committee or the commitment of permanent fund earnings.

The points are as follows:

1. Page 3, lines 16-20 - I wish to reiterate my arguments against using the staff of the division of legislative audit as the professional staff for the oversight committee. In the draft the problem of crossed lines of authority continues to exist. I might suggest here that you consider using the staff of the division of legislative finance, while retaining the staff of the division of legislative audit to do audits. This, I think, eliminated the crossed lines and adds another checkpoint.

2. Page 3, line 29 and Page 4, lines 1-7 - To be consistent with the duties of the oversight committee, should this language be changed to include other activities (the loan funds, investment of pension and retirement funds) over which the oversight committee is given purview?

3. Page 5, lines 11-15 - To be consistent with the committee's finding that the permanent fund is indeed permanent, shouldn't this be eliminated?

4. Page 8, line 6 - It was my understanding that the term "prudent person" was to be changed to "prudent investor" or something of that nature, following Terry McGrath's advice.

5. Page 10, lines 22-25 - The Speaker had some objection to the term "post audits" which he mentioned to me at the last meeting and never explained.

6. Page 11, line 26 and following - There is no confirmation over the governor's executive appointment or a term of office for that appointment. I don't believe there was any specific committee direction on this point.

12/5 draft

2-2-2-2

7. Page 14, lines 2-5 - This language seems to be inconsistent with the authority of the oversight committee. Why would the investment fund report to the commissioner of revenue?

8. There is no stated language in the entire section on the investment committee as to who can remove members and how.

9. Page 15, lines 8-10 and 14-17 - The placement of commas and wording makes it appear that community development projects do not have to be income producing or financially sound. The same seems to be true on Page 17, lines 11-17.

10. Page 16, lines 16-18 (beginning "unless...") - This language gives broad discretion for pulling out investments that go sour. Is the granting of this discretion advisable?

11. Page 18, line 6 - Shouldn't "which in the opinion of the investment fund..." read "which in the opinion of the legislature..."? This change would leave the question of subsidy to the legislature, which I believe is where the committee wants it.

12. Page 18, lines 28-29 and Page 19, line 1 - Shouldn't there be language requiring these reports be passed on to the governor, legislature and public?

'The Dutch Disease'

Holland's Gas Money Has Brought Affluence And Economic Woes

Spending on Social Programs
At Expense of Industry
Hurts Profits and Jobs

Why Guilder Slows Exports

12/5/77
By PHILIP REVZIN p1

Staff Reporter of THE WALL STREET JOURNAL

AMSTERDAM—The British call it "the Dutch disease," and are determined not to catch it themselves. The Norwegians are increasingly wary of the ailment. And the Dutch are only now realizing the extent of their illness.

At first glance the Dutch disease doesn't appear to be a malady at all, because its symptoms are high incomes, advanced living standards and generous social benefits. Much of this is the result of the discovery in 1959 of huge reserves of natural gas in the province of Groningen in northern Holland. By the time these reserves were on their way to market in the late 1960s, a growing world energy demand provided Holland with a rich source of revenue.

Holland's problems arise from the fact that these revenues were used to make the Dutch social-security system one of the best in the world and to build roads, subsidize schools and hospitals and to improve the nationalized rail system. They weren't used for job-creating capital investments. Businessmen say that because they haven't shared in the gas bonanza and because of the taxes and contributions they have had to pay to finance the social benefits, their profits have been sorely squeezed.

'A Curse in Disguise'

As a result, unemployment is rising, and industry says it won't be able to provide enough jobs in the future. Capital investment is no longer growing, and the Dutch are facing a leveling off of living standards. Compounding the problem, the gas money has made the Dutch guilder one of the world's strongest currencies. This means that Dutch products often are too expensive to compete in the export market. "Natural gas is a curse in disguise," Jelle Zijlstra, head of the Dutch Central Bank, said recently.

Economists in Britain and Norway, both of which have substantial North Sea reserves of oil and natural gas, are warning their countries not to make the same mistakes. They urge that plans be made to invest much of the energy revenues in capital projects. In Britain, a committee composed of business, labor and government leaders is meeting to discuss uses for the oil money.

The Dutch began signing contracts for their natural gas in the 1950s because they were fearful that nuclear power would make gas obsolete as a fuel source. Some of these export contracts won't run out until the end of the century.

Last year, gas revenues amounted to about \$3 billion, or 11% of general government revenues, and the percentage is expected to be about the same this year. Revenues have been boosted both by the government's raising of gas prices, to stay in line with world oil prices, and by renegotiation of oil-company contracts. Royal Dutch/Shell and Exxon's Esso subsidiary, which are under contract to develop the gas reserves, originally took 30% of the profits. Now they are taking only 5%, with the balance going to the government.

A \$2.5 Billion Surplus

All of this gas money, from exports as well as from the substitution of domestic gas for imported oil, kept the Dutch international balance of payments on current account solidly in the black between 1972 and early this year. The excess of monetary inflow over outflow gave Holland a surplus of about \$2.5 billion last year and inspired such confidence in international money markets that the guilder has risen in value by more than 30% against the dollar since 1971.

The balance of payments showed a small deficit in the first quarter this year, probably due to decreased export demand, but economists say it swung back into the surplus at mid-year, and it will end the year in the black.

Yet many economists are sounding a warning note amid this prosperity. "Everything has been going so good for so long that I'm afraid it will take a real catastrophe before people think about our genuine problems," says Victor Halberstadt, professor of public finance at the University of Leiden.

Already the signs are evident. Profits, as a percentage of return on investment, have slipped by an estimated 50% to 75% since 1970 for most companies. The 6% unemployment rate is moderate by U.S. standards, but much higher than the Dutch are used to. A prominent Dutch banker recently estimated that the government's use of gas revenues for social benefits has cost 300,000 jobs since 1970.

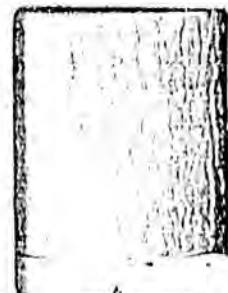
Weathering the Recession

This spending has risen by more than 13% since the early 1960s and now is the highest of any industrialized non-Communist nation. The central government's budget this year will be about \$3 billion, up about 8.5% from \$28.6 billion in 1976. Together with transfer payments, such as social security benefits, government spending now represents more than 50% of the volume of the goods and services produced in Holland.

Certainly, this public spending saw 11 million Dutch people through the worst of the recession with still-rising living standards. But it also allowed them and their government to ignore the serious economic problems that were developing under the gas bubble.

"The politicians mortgaged our future by using the gas money for the simplest, most popular social programs," says a prominent

Please Turn to Page 27, Column 1



'The Dutch Disease': Gas Revenues Cause Economic Woes for Holland

Continued From First Page

Dutch banker. "If only a bit more of the money had been given to private industry, we would have much fewer problems."

Businessmen say that some of the gas revenues should have been earmarked for direct grants to big manufacturers in key industries and for tax incentives and concessions to help small business expand.

Instead, Dutch firms have been asked to contribute more and more of the cost of public programs, through the higher taxes and social-security contributions. This so-called collective burden rose by an average of 1.9% a year from 1970 to 1975 (total tax revenues are 52.1% of the national income, among the highest levels in the industrialized world). Last year the government purposely held the increase to 1% of national income. Because of wage increases and increased employer contributions for benefits, labor costs will rise by 8% this year, more than in most countries competing against Dutch products in the export market. Offsetting these costs somewhat is the productivity rate, which rose by 10% last year.

Dutch exports also are being badly hurt by the strength of the guilder. Holland traditionally has imported most of its raw materials and has exported more than 40% of its manufactured goods. The appreciation of the guilder has made imports cheaper and has helped keep inflation down to its present level of about 6.5%. But it also has made exports much more expensive. "We can't sell our products abroad," complains R. C. Spinosa Cattella, a member of the management board of N.V. Philips, the multinational electronics giant. "We've priced ourselves right out of the market."

The government recently said it expects no growth in Dutch exports this year, a revision of its earlier forecast of a 6% gain over last year. VNO, a Dutch business group, believes that exports will grow by only 3% next year.

All this has made Dutch businessmen fit-

tery about new investment in the country. Although the volume of business investment probably will rise about 5% this year, Amro Bank, one of Holland's largest financial institutions, projects no growth for next year. Many companies, including Philips, are making few capital investments. "We are maintaining our overall investment level, but spending it on improvements of our existing facilities," says Philips's Mr. Spinosa Cattella. Smaller companies say they simply don't have the cash to invest.

Government and industry are now casting around for ways of dealing with this malaise. Businessmen have proposed a program of tax cuts, a cut in the increase in public spending beginning next year and a slight loosening of price controls to improve profits.

Government ministers say they are planning to steer the structure of the Dutch economy away from traditional industries, such as textiles and shipbuilding, which, in addition to being big energy users, require heavy capital investment. Finance minister Willem Duisenberg says the emphasis will now be on high-technology industries, such as environmental design and electronics, through selective grants and government encouragement.

Seeking a Government

But none of these measures can be implemented until a solid government is formed. Holland has been without a government for nearly eight months. The government of Socialist Premier Joop den Uyl fell last March. After an inconclusive election, attempts to form a workable coalition from among 25 political parties failed. In recent days, however, two right-of-center parties, the Christian Democrats and the Liberals, apparently have reached agreement to form a new government.

The new government's major priority will be to deal with the worsening unemployment problem. Most estimates put unem-

ployment next year at 250,000, up from 210,000 at present. But economists say that the true unemployment figure is hidden because it would include many of the 350,000 workers receiving disability benefits under Holland's liberal system.

Unemployment benefits also are generous. Workers receive benefits equal to 80% of their salary for the first year of unemployment and 70% for the next two years.

Economists and politicians are fearful that Holland is facing a future of rising unemployment and little or no economic growth. The growth of the gross national product has slowed to under 3% this year, compared with last year's growth of 5%. The Amro Bank forecasts a growth rate of 2.5% for next year.

The Main Hope: Gas

"No politician can say publicly that public spending, and therefore living standards and benefits, will actually be cut in the next few years," says a Dutch politician. The most that can be conceded, says a minister, is that "there will be no real increase in disposable income for the next five years." This will go down poorly with Dutch workers who over the past few years have seen average per-capita disposable income rise by more than 2% a year.

Ironically, Holland's main hope for the future lies in the commodity that caused all this economic trouble in the first place: natural gas. Total revenues for natural gas will peak this year, the first year that Holland's North Sea gas discoveries won't equal consumption, and the year-to-year increase in gas revenues will decrease from here on. But there is still plenty of gas around.

Government estimates put Holland's total reserves of natural gas at more than 2.3 trillion cubic meters, or 80.5 trillion cubic feet, enough to last well into the 21st Century. Rudolf Lubbers, the minister of economic affairs, says that Groningen production is being slowed to make sure that the fields aren't rapidly depleted.

The government is committed to the long-term foreign contracts that it signed in the early 1960s. But some of this gas will be provided through the 1 billion cubic meters, or 140 billion cubic feet, of gas that Holland

Annual Oil Price Boost Of 5% Approved by U.S.

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — The government will allow domestic oil prices to rise during the next three months at an annual rate of 5%.

Under the oil price control program, the Economic Regulatory Administration in the Energy Department adjusts prices every three months to allow prices to rise at the rate of inflation.

Prices for "old" oil will be \$5.28 a barrel in December, \$5.30 in January and \$5.32 in February. "New" oil prices for those months will be \$11.80 a barrel, \$11.85 and \$11.90, respectively. "Old" oil is production from wells drilled before December 1972. "New" oil is production that exceeds 1972 levels or oil from wells drilled after December 1972.

will be buying from Algeria and Norway over the next 20 years.

The government also is hoping to conserve its gas by raising its domestic price. Dutch users have been paying about 30% less for domestic gas than for other energy sources. This difference will be phased out over several years.

~~SECOND FINDINGS~~

Sec. 37.11.010. Alaska Renewable Resources Development Fund. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned for deposit into the development fund by sec. 20 of this chapter are intended to guarantee the enhancement and development of the state's renewable resources.

Sec. 37.11.020. Development fund authorization level. Not less than five per cent of the receipts paid to the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the development fund. These deposits shall be invested on an interim basis in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the development fund.

~~STATE OF ALASKA~~

Sec. 37.11.025. Declaration of policy. It is the policy of the state to

(a) rehabilitate, enhance, and develop its renewable resources and, insofar as is consistent with sound resource management policies, develop its human resources by providing maximum opportunities for employment and a higher standard of living for its citizens; and

(b) utilize the fund to further the (1) development of renewable resource industries that will contribute to a stable self-sustaining state economy, employment opportunities, and life-style alternatives for its citizens, and (2) commercial, traditional, and common uses of the state's renewable resources.

Sec. 37.11.026. Findings. (a) The legislature finds that Alaska has vast quantities of renewable resources that are not being utilized to their full potential and that great opportunities for expanding the wealth of the state lie in the expanded use of these resources. Many problems which confront the state, including lack of full employment and self-sustaining, renewable resource-based industries, could be mitigated by the expanded use and development of its renewable resources.

(b) It is further found that the Alaska economy has historically depended upon sporadic and non-stable development, most often relating to non-renewable resource exploitation.

(c) It is further found that several key factors have contributed to the slow development of renewable resource-dependent industries, including: (1) recent sharp reductions in research and development financing and venture capital financing; (2) a general lack of knowledge within the business and financial communities about conditions and factors affecting renewable resource industrial development, especially in the state; and (3) resource management uncertainties which have discouraged investment and the development of appropriate technologies.

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(d) It is further found that the state's policy of assisting the development of viable industries is best accomplished by providing ^{TV} public assistance to private industry in ways necessary and feasible to most efficiently identify and develop new industries which will use the state's renewable resources to bring maximum benefits to the state and its citizens.

(e) It is further found that some of the state's renewable resources will be most appropriately utilized by reserving their use to non-commercial activities for the purposes of sustaining traditional lifestyles, providing recreational opportunities, and protecting the natural environment, all of which are culturally and historically important to the citizens of the state.

~~1 - ALASKA TECHNOLOGY~~

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Sec. 37.11.030. Development fund utilization. Appropriations from the development fund shall provide for the rehabilitation, enhancement, and development of renewable resources. [Plans for expenditures from the development fund shall be submitted by the corporation to the legislature through the governor as provided for state agencies by the Executive Budget Act (AS 37.07) as part of his annual budget presentation.]

ask Beemer if this should be retained to protect co. continuity (possibly covered by sec. 270)

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Sec. 37.11.040. ~~Development fund balances.~~ Unappropriated or otherwise unencumbered balances remaining in the development fund at the close of each fiscal year shall be transferred to the permanent fund.

Sec. 37.11.050. Alaska Renewable Resources Permanent Fund. There is established as a separate fund the Alaska renewable resources permanent fund. Funds appropriated by sec. 40 of this chapter for deposit into the permanent fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans.

Sec. 37.11.060. Permanent fund principal. Transfers to the permanent fund made in accordance with sec. 40 of this chapter shall be considered as the principal of the permanent fund and shall be invested in perpetuity in accordance with AS 37.10.070 (investment of surplus state funds).

Sec. 37.11.070. Utilization of permanent fund income. Income derived from the permanent funds shall be transferred to the development fund, and shall be included in the annual budget for the development fund.

Sec. 37.11.080. Protection of permanent fund principal. A transaction involving permanent fund principal which results in an actual decrease of the principal shall be reimbursed in full from fund income before such income is otherwise expended.

Sec. 37.11.100 [omitted; no change]

Sec. 37.11.110. Alaska Renewable Resources Corporation created. There is created the Alaska Renewable Resources Corporation to carry out the purposes of this chapter. The corporation is a public corporation of the state and an instrumentality of the state within the ~~Department of Natural Resources~~ ^{Department of Revenue}, but has a legal existence independent of and separate from the state and has continuing succession until its existence is terminated by law. The exercise by the corporation of the powers conferred by this chapter is considered an essential function of the state.

Sec. 37.11.120. Purposes. The purposes of the corporation are to

(1) facilitate the rehabilitation, enhancement, and development of the state's renewable resources so as to foster a self-sustaining state economy;

(2) ^{research,} develop and demonstrate technologies and innovations for the rehabilitation and enhancement of the state's renewable resources to achieve their most appropriate use;

(3) identify products, markets, and technologies for renewable resource-based industries in the state, ~~and~~ stimulate the research and development of these products, markets, and technologies; *assist in the demonstration of their technical and economic feasibility, and assist in their introduction into commercial markets*

Sec. 37.11.130. Allocation. There shall be allocated from the receipts described in sec. 20 of this chapter ^{at least} five percent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land to the corporation.

Sec. 37.11.140. Board of Trustees. A board of trustees of the corporation is established as its governing body.

Sec. 37.11.150. Composition of the board of trustees. The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session. The board shall annually elect a chairman from among its members. A chairman may not succeed himself.

Sec. 37.11.160. Term of office. The members of the board of trustees shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. The initial terms shall be one member serving two years, one members serving three years, and one member serving four years.

Sec. 37.11.170. Removal and vacancies. (a) The governor may remove a board member from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a board member may not participate in board business and may not be counted for the purpose of establishing a quorum. A suspended member shall continue to receive his salary as a board member until the legislature in joint session consents to his removal. The joint session shall be held within 30 days from the date of removal if the removal occurs which the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of members of the legislature in joint session. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.11.180. Qualifications of board members. (a) No person may be appointed to the board who has not been a resident of the state for at least three years.

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(b) No member of the board may hold any other state or federal office, position, or employment, whether elective or appointive, except as a member of the armed forces of the United States or the state.

Sec. 37.11.190. Quorum. Two members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.11.200. Compensation of board members. Board members are in the exempt service under AS 39.25 and receive an annual salary within Range 30 of the salary schedule for state employees established by AS 39.27.011.

Section 37.11.210. Employment of personnel. The board may employ and determine the salary of an executive ^{PRES} director. The executive director may, with the approval of the board, select and employ additional staff as necessary. The executive director and all employees of the board are in the exempt service under AS 39.25.

Sec. 37.11.220. Conflicts of interest. (a) Members of the board of trustees are subject to the provisions of AS 39.50.

(b) No member of employee of the board shall acquire an interest, direct or indirect, in a corporation, company, association, or project owned, controlled, or invested in by the corporation. If a member or employee owns or controls such an interest, he shall immediately disclose the interest in writing to the board and refrain from participating in any manner in any board activity relating to that interest.

Sec. 37.11.230. Powers. In carrying out the corporate powers of the corporation, the board may

- (1) adopt, alter, and use a corporate seal;
- (2) prescribe, adopt, amend, and repeal bylaws;
- (3) sue and be sued in the name of the corporation;
- (4) enter into any agreements necessary to the exercise of its powers and functions;
- (5) accept grants from and contract with the federal government, the state or its political subdivisions and to that end comply with the provisions of federal, state, or local programs where necessary except that it may not enter into any agreements whereby any permanent state or local government position is funded or partially funded in connection with a project;
- (6) accept grants and loans from other sources than those in (5) of this section to be held and used ^{for} ~~as~~ the purposes of the corporation;
- (7) appear in behalf of the corporation before boards, commissions, departments or other agencies of municipal, state, or federal government;
- (8) acquire, hold, use, lease, sell, or otherwise dispose of property of any kind, real, personal, or mixed, or any interest in ~~it~~ ^{it};
- (9) hold patents, copyrights, trademarks, royalties, or any other evidences of protection or exclusivity as to any products or technology issued under the laws of the United States or any state or nation; ~~and which shall be held in trust for the~~
- (10) Prepare, publish, and distribute technical studies, reports, bulletins and other materials it considers appropriate;
- (11) contract or otherwise provide for technical assistance for applicants and recipients drawing on local resources whenever possible;

(12) do all acts and things necessary or desirable to carry out the purposes of the corporation;

(13) make financial assistance available in the form of grants, loans, loan guarantees or other forms of assistance to local and regional research and development groups in order to facilitate investment by those groups in specific enterprises or projects which, ~~in the opinion of the board~~, do not warrant its direct supervision;

(14) invest, in such forms as it considers appropriate, ^{only} in projects for the research, development, ~~and~~ ^{introduction into commercial markets,} demonstration of new products, markets, innovations, ^{the rehabilitation, enhancement and development of} and technologies beneficial to renewable resources ~~development~~ and which have ^{income producing potential.}

(15) Provide grants ^{only} to projects for the research, development ~~and~~ demonstration of new products, markets, innovations and technologies beneficial to rehabilitation, enhancement and development of renewable resources which do not yet have income producing potential, but are commercially promising or have potentially broad application to the public.

(16) adopt regulations to implement this chapter.

Sec. 37.11.240. Duties. ^(a) ~~In carrying out the purposes of this chapter,~~ the board shall

(1) use the financial mechanism most appropriate to the conditions of an applicant ~~and which provides the maximum incentive to the applicant to succeed~~ and which most effectively utilizes the fund available.

(2) ^{Seek to maintain and expand the productivity} ~~foster the growth and expansion~~ of renewable resources and contribute to the improvement of sound resource management;

(3) identify ^{existing and} potential resource use conflicts and make ~~its~~ investments ^{which} ~~to use all reasonable means to~~ mitigate, ^{or resolve} such conflicts and, ~~to the greatest extent possible,~~ preserve ~~for~~ the future options for the use of the state's renewable resources;

(4) seek to distribute equitably the benefits of fund investments among areas of the state, ^{different} renewable resources and citizens of the state.

(5) seek to maximize return ~~on its investments~~ to the state and local governments and its citizens in such forms as tax revenues and resident employment and income.

(6) seek to promote the utilization of the state's resources for use within the state and the development of import substitution as well as export markets;

(7) consider regional and local preferences and priorities in making fund allocation;

and prioritize areas

(9) consider the investment proposals of qualified applicants only after the applicant for investment has submitted a detailed proposal in the form prescribed by the board. No investment shall be made unless the board finds, in writing, that

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- (A) the proposed product, market, ~~or technological development~~, ^{innovation} if successful, will further the purposes specified in this chapter;
- (B) the proposed product, market, or technological development is likely ^{to be} technologically and economically feasible;
- (C) private financing cannot reasonably be undertaken without aid or that private venture capital financial participation is not otherwise available;
- (D) the applicant has entered into an agreement that new renewable resource industry activity shall be established and remain in the state for a minimum period of time as determined by the board;
- (E) the renewable resource development encouraged by the financial assistant does not significantly deteriorate the opportunity for the present and future use of other renewable resources affected by the development; and
- (F) the applicant demonstrates sufficient technical and business experience to accomplish the objectives of the proposal, except that the board may provide technical and managerial assistance.

(10) provide for operational and performance evaluations (post-audits) of its financial allocations.

Board
Bill
Time

and an overall assessment of the degree to which the purposes and goal of this act (see _____ and Sec. _____) have been achieved, expressed in qualitative and quantitative terms

LIMITS
SEP
SECTION

(b) The board may ~~not~~ (1) invest more than five per cent of the resources of the corporation or \$1,500,000, whichever is less, in a single project unless the legislature has approved the investment by concurrent resolution;

(2) make a loan for a period in excess of 20 years unless the legislature has approved the loan by concurrent resolution; or

NO

(3) assume the responsibility for management of any enterprise or project in which it has invested and may not exercise voting rights for that purpose or for any other purpose which, in its opinion, is properly within the scope of managerial control.

(c) Nothing in this section shall prevent the board from taking such action and exercising such rights as it considers necessary for the protection of its interests in the event of

- (1) actual or threatened default on any of the board's investments;
- (2) actual or threatened insolvency of an enterprise or project in which the board has made an investment; or

(3) any other circumstance, event, or sequence of circumstances or events which, in the opinion of the board, jeopardizes an investment made by the board.

NO
Sec. 37.11.250. Eligibility for financial assistance. The board may grant financial assistance if it finds that (1) the applicant has submitted a proposal in accordance with sec. 240(a)(8) of this chapter which has been approved by the board;

(2) the applicant is a resident of the state, or if the applicant is a partnership, corporation, or other association, is owned by a majority who are residents of the state; and

(3) projects which have previously received ~~BBF~~ ^{corporation} funding ~~and~~ have conformed to all conditions precedent or subsequent to such funding and have performed with sufficient success or promise of success to warrant further aid.

and distribute
Sec. 37.11.260. Reports and publications. (a) The board shall prepare in non-technical language ~~a pamphlet~~ ^{materials} describing the purposes and activities of the fund, and distribute ~~the pamphlet~~ ^{to the widest extent feasible among prospective users of the fund.}

DUAL BAL SHEET
(b) The board shall publish an annual report for the governor, the legislature, and the public at the time of submitting its annual budget request. Each annual report shall include financial statements audited by independent outside auditors, a statement detailing the sources from which the corporation received money, a statement detailing the investments made by the corporation, ^{a summary and} ~~a projection~~ ^{evaluation of the requirements specified under section 240(a)8 and section} ~~of the status of renewable resource activity and an analysis and projection of the~~ ^{240(a)10,} ~~corporation's participation in such activity,~~ and any other information that the board of trustees believes would be of interest to the governor, the legislature, and the public.

(c) ~~The board may publish such other reports as it considers necessary to carry out its purpose.~~

Sec. 37.11.270. Budget. The corporation is subject to the provisions of the Executive Budget Act (AS 37.07) for all funds whether received through allocations by this chapter or otherwise. ^{of the corporation} {The ~~operational~~ ^{administrative} budget shall be a separate budget category, ~~from the remainder of the budgets.~~}

UP FRONT

Sec. 37.11.280. Definitions. In this chapter, unless the context otherwise requires,

(a) "renewable resource" means non-human living organisms; natural components of the environment, including the air, land, and water; and energy systems which are recurring or naturally replenished.

(b) "rehabilitation, enhancement and development" means any activity or program which improves the health and well-being of a renewable resource or renewable resource population leading to an increase in the quality and/or productivity of this resource and to an increase in the benefits derivable from this resource accruing to the residents and the state of Alaska.

(c) "development fund" means the A R R D F

(d) "permanent fund" means the A R R D F

(e) "corporation" means the A R R C

(f) "board" means the board of trustees of the A R R C

(g) "appropriate use" means

(h) "applicant" means

OTHERS

Hypothetical Case Based On Worse Bond Market
(1967-1971) And Stock Market (1972-1976) In Past 50 Years

Based on past ten years Fund 100% bonds through year 5 then 25% stocks through year 10. Equal amounts each year.

<u>Year</u>		A			B		<u>Assets of Fund at Market</u>		
		(1) <u>Bonds</u>	(2) <u>Stocks</u>	<u>Total</u>	<u>5 Yr. Moving Average</u>	<u>Bonds</u>	<u>Stocks Index</u>	<u>Total</u>	
1967	1	5.51%	-	5.51%	5.51%	100	-	100	
1968	2	6.18	-	6.18	5.85	89	-	89	
1969	3	7.03	-	7.03	6.24	86	-	86	
1970	4	8.04	-	8.04	6.69	84	-	84	
1971	5	7.39	-	7.39	6.83	93	-	93	
1972	6	7.21	2.84%	6.12	6.95	109	100	107	
1973	7	7.44	3.06	6.34	6.98	105	98	103	
1974	8	8.57	4.47	7.50	7.06	97	86	94	
1975	9	8.83	4.31	7.70	6.99	94	90	93	
1976	10	8.84	3.77	7.26	6.96	99	107	101	

(1) AAA Moody Bond Yield

(2) Standard & Poor 500 Stock Dividend Yield

- A) Actual Return based on interest and dividend received in that year to market value.
 B) Return based on 5 years averaging of interest and dividends received to market value.

B is used to provide a steadier flow of income, less volatility than taking in current income.

Language from Montana Session Laws 1975 S.B. 86

"An act creating a fund for research, development and demonstration of alternative energy sources and allocating certain revenue from coal taxes to the fund; directing the department of natural resources and conservation to make grants from the fund in support of alternative energy research; providing for an alternative energy advisory committee; making appropriations; and amending section 84-1309.1, R.C.M. 1947."

Sec. 7. Criteria for grant awards. The department may award grants to applicants under section 84-7411 in accordance with the following criteria:

(1) A grant may cover a period exceeding one year, and the department may not commit itself to spending funds anticipated to be available more than one year after the grant period begins. The department may give an applicant a statement of intent to renew its support of his work, subject to the availability of funds and such other conditions as the department may express.

(2) The department may give preference to projects which are also supported by grants from the federal government or other persons provided the grants are consistent with the other objectives of the department. The purpose of this preference is to use the alternative energy research development and demonstration account for matching moneys in order to support more substantial research.

(3) The department may give preference to research centers unattached to existing educational institutions where several

24.20.670 (b)

(6) In conjunction with the finance committee of each house recommend annually to the legislature the use of the general fund surplus and the income from the Permanent Fund.

(5) Present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.09.020(b) with recommendations for any needed legislation.

Sec. 2 AS 37.07.020 is amended by adding a new paragraph to read:

(b) The governor shall annually report to the legislature through the investment oversight committee the long range fiscal and economic consequences of: (1) alternate levels of capitalization of the investment funds of the state, and (2) alternative uses of the general fund surplus.

Findings: The legislature finds that there is a substantial need for oversight of the performance of all agencies of the state which perform lending, borrowing or investment functions since these functions do not receive the detailed review that other expenditures of public money are subject to and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to legislative intent, and the impact of the performance on the economy and treasury of the state and the public good in their policy and performances so that the need for new legislation is recognized when appropriate and the factual basis for legislative change is present.

Purposes: The purposes of the investment oversight committee are: (a) to monitor and report: (1) the performance of the agencies of the state which perform lending, borrowing or investment functions, (2) the extent of which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens, (3) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal investment and financial planning.

(b) to hold these agencies accountable to legislative intent in their performance by recommending where appropriate changes in policy to the agencies or where appropriate changes in legislation to the legislature.

(c) to annually review the extent of capitalization of the investment funds of the state and alternative uses of the general fund surplus and recommend needed legislation.

Re: State of Alaska

Sec. 37.13.020 Findings

- The legislature finds that
- (1) the permanent fund should provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of future generations of Alaskans;
 - (2) The primary goal is to provide maximum investment return consistent with the maintainence of the Fund as perpeptual and inviolate forever;
 - (3) The Permanent Fund investments shall be made with such prudence, discretion and intelligence as will protect the safety of principal of such funds as well as the income to be derived therefrom. Securities shall be sold when the overall investment portfolio of the Fund will be improved through such action. This does not prevent sale of securities at less than cost to the fund. However, all losses not offset by gains shall be repaid to the fund from income earned thereafter. The profit from all securities held in the Fund that are sold above the purchase price shall be added back to the principal of the Fund.
 - (4) The minimum income available after the first five years of investment operations of the Fund shall be the annual average current return at cost. Subsequently there will be a moving average current return, whereby the latest fiscal year return will replace the oldest year. The income available for disbursement shall be equal to the average annual current income for the past five fiscal years of the Fund.

w.o. 4350
12/9/77

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonrenewable resource revenues; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 24.20 is amended by adding new sections to read:

10 ARTICLE IV. STATE INVESTMENT OVERSIGHT COMMITTEE.

11 Sec. 24.20.600. STATE INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED.

12 The State Investment Oversight Committee is established as a permanent
13 interim committee of the legislature. The establishment of the com-
14 mittee recognizes the need of the legislature for technical review and
15 oversight of the performance of all agencies of the state which perform
16 lending, borrowing or investment functions.

17 Sec. 24.20.610. MEMBERSHIP. The committee is composed of eight
18 members: the president of the senate, the speaker of the house, and
19 three members appointed from each house by the respective presiding
20 officer. The membership from each house shall include at least one
21 member from each of the two major political parties. The committee
22 shall select its own chairman.

23 Sec. 24.20.620. TERM OF MEMBERSHIP. (a) The committee shall be
24 organized within 15 days after the organization of each legislature.
25 Members serve for the duration of the legislature during which they are
26 appointed. If a member is reelected or his term of office extends into
27 the next succeeding legislature, he continues to serve until reappointed
28 or the appointment of his successor.

29 (b) When a member of the committee files a declaration of candi-

1 dacy for an elective office other than that of member of either house of
2 the legislature, and he has not resigned from membership on the commit-
3 tee, his committee membership terminates on the date of filing.

4 Sec. 24.20.630. VACANCIES. When a vacancy occurs in the statutory
5 or appointive membership of the committee, the presiding officer of the
6 house incurring the vacancy shall choose a successor. If the office of
7 the president of the senate or speaker of the house of representatives
8 becomes vacant and a vacancy from the affected house occurs among the
9 membership of the committee, the remaining committee members from the
10 house incurring the vacancy shall appoint a new member.

11 Sec. 24.20.640. MEETINGS. The committee may meet during sessions
12 of the legislature and during the interim between sessions at such times
13 and places in the state as the chairman may determine. Members may
14 receive, for the minimum time required to get to and from meetings and
15 for the period while attending meetings, the same travel and per diem
16 allowances provided by law for members of the legislature when attending
17 sessions, except that members of the committee receive no per diem
18 during legislative sessions other than the per diem allowance paid to
19 other members of the legislature.

20 Sec. 24.20.650. POWERS. The committee has the power to

21 (1) organize, adopt rules for the conduct of its business,
22 and prescribe procedures for the comprehensive fiscal analysis, budget
23 review and post-audit functions over those agencies of the state which
24 perform lending, borrowing or investment functions;

25 (2) hold public hearings, administer oaths, issue subpoenas,
26 compel the attendance of witnesses and production of papers, books,
27 accounts, documents and testimony, and have the deposition of witnesses
28 taken in a manner prescribed by court rule or law for taking depositions
29 in civil actions;

1 (3) require all state officials and agencies of state govern-
2 ment to give full cooperation to the committee or its staff in assembling
3 and furnishing requested information;

4 (4) hold public hearings relating to the confirmation of
5 members of the Alaska Permanent Fund Board of Trustees, the Board of
6 Trustees of the Alaska Renewable Resources Corporation, and the Alaska
7 Enterprise Investment Fund Policy Board;

8 (5) prepare and distribute reports, memoranda, or other
9 necessary materials;

10 (6) make recommendations concerning the structure and operat-
11 ing practices of all agencies of the state which perform lending,
12 borrowing or investment functions;

13 (7) receive and review reports and post-audit analyses con-
14 ducted by the Legislative Budget and Audit Committee relating to all
15 agencies of the state which perform lending, borrowing or investment
16 functions.

17 Sec. 24.20.660. STAFF. The legislative audit division shall
18 provide staff reasonably necessary for the conduct of the committee
19 duties. The committee may hire and determine the salary of the adminis-
20 trative support staff it considers necessary within the limit of the
21 budget approved by the legislature.

22 Sec. 24.20.670. DUTIES. The committee shall

23 (1) report to the legislature its recommendations relating to
24 the confirmation of suggested appointees to the Alaska Permanent Fund
25 Board of Trustees, the Board of Trustees of the Alaska Renewable Re-
26 sources Corporation, and the Alaska Enterprise Investment Fund Policy
27 Board;

28 (2) annually review the long-range operating plans of all
29 agencies of the state which perform lending, borrowing or investment

1 functions;

2 (3) review quarterly reports from the Alaska Permanent Fund
3 Board of Trustees, the Board of Trustees of the Alaska Renewable Re-
4 sources Corporation, and the Alaska Enterprise Investment Fund Policy
5 Board;

6 (4) present a complete report of investment programs, plans,
7 performance, and policies of the Alaska Permanent Fund Board of Trustees,
8 the Board of Trustees of the Alaska Renewable Resources Corporation, and
9 the Alaska Enterprise Investment Fund Policy Board to the legislature
10 within 30 days after the convening of each regular session.

11 Sec. 24.20.680. RECORDS. The committee shall keep a complete file
12 of all reports presented to it and all reports presented by it to the
13 legislature or any legislative committee.

14 * Sec. 2. AS 37 is amended by adding a new chapter to read:

15 CHAPTER 13. ALASKA PERMANENT FUND.

16 Sec. 37.13.010. ALASKA PERMANENT FUND. Under art IX, sec. 15 of
17 the state constitution, there is established as a separate fund the
18 Alaska Permanent Fund. The permanent fund consists of 100 per cent of
19 mineral lease bonuses after deduction of any amounts allocated to the
20 Alaska Native Fund under the Alaska Native Claims Settlement Act and
21 implementing state legislation and any amounts allocated by law to the
22 Alaska Renewable Resources Development Fund and 30 per cent of all
23 mineral lease rentals, royalties, royalty sale proceeds, and federal
24 mineral revenue sharing payments received by the state and any other
25 money allocated by law or appropriated to the principal of the fund.
26 The permanent fund consists of (1) the fund established in this chapter
27 to which five-sixths of the receipts from these sources is allocated and
28 (2) the Alaska Enterprise Investment Fund established in AS 44.55 to
29 which one-sixth of the receipts from these sources is allocated until

1 the amount so allocated reaches the sum of \$100,000,000. Thereafter the
2 total receipts from these sources is allocated to the fund established
3 in this chapter.

4 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
5 tional amendment, have required the placement of at least 25 per cent of
6 all mineral lease rentals, royalties, royalty sale proceeds, and federal
7 mineral revenue sharing payments and bonuses received by the state into
8 a permanent fund. The legislature finds that

9 (1) the permanent fund should provide a means of conserving a
10 portion of the state's revenues from mineral resources to the ultimate
11 benefit of future generations of Alaskans;

12 (2) the primary goal of the fund should be to maximize total
13 return while maintaining safety of principal;

14 (3) the permanent fund should be used as a savings device
15 until the future time when disposable income from the fund will be
16 needed to replace depleting mineral resource revenues.

17 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
18 provide a mechanism for the management and investment of permanent fund
19 assets in a manner consistent with the findings established in sec. 20
20 of this chapter.

21 Sec. 37.13.040. ALASKA PERMANENT FUND BOARD OF TRUSTEES. There is
22 established the Alaska Permanent Fund Board of Trustees. The permanent
23 fund board of trustees is a public corporation and government instru-
24 mentality in the Department of Revenue but has a legal existence inde-
25 pendent of and separate from the state. The purpose of the board is to
26 manage and invest the assets of the permanent fund in accordance with
27 the guidelines established in this chapter.

28 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board
29 of trustees consists of three members appointed by the governor and con-

1 firmed by a majority of the members of the legislature in joint session.

2 (b) The board shall annually elect a chairman from among its member

3 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be
4 appointed for terms of three years, and they may be reappointed. Terms
5 shall be staggered. Initial terms shall be one member serving for one
6 year, one member serving for two years, and one member serving for three
7 years.

8 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
9 remove a trustee from office by and with the consent of a majority of
10 the members of the legislature in joint session. A removal by the
11 governor shall be in writing and state the reason for removal. If the
12 legislature is not in session, the governor may suspend a member of the
13 board. Upon suspension, a trustee may not participate in board business
14 and may not be counted for purposes of establishing a quorum. A sus-
15 pended member shall continue to receive his salary as a trustee until
16 the legislature in joint session consents to his removal. The joint
17 session shall be held within 30 days from the date of removal if the
18 removal occurs while the legislature is in session or within 30 days of
19 convening of the legislature if the legislature is not in session. If
20 the legislature refuses to consent to his removal, the trustee shall be
21 reinstated to his position.

22 (b) A vacancy on the board shall be promptly filled by appointment
23 by the governor and confirmation by a majority of the members of the
24 legislature in joint session, and an appointee to fill a vacancy shall
25 hold office for the balance of the term for which his predecessor on the
26 board was appointed. If a vacancy arises on the board while the legis-
27 lature is not in session, the governor may appoint an interim trustee
28 who shall exercise all powers and receive the salary of a permanent
29 trustee until such time as the legislature in joint session fails to
30 confirm the interim trustee's appointment.

1 (c) A vacancy on the board does not impair the authority of a
2 quorum of the board to exercise all the powers and perform all the
3 duties of the board.

4 Sec. 37.13.080. QUALIFICATIONS OF TRUSTEES. (a) No trustee may
5 be appointed to the board who has not been a resident of the state for
6 at least three years.

7 (b) No member of the board may hold any other state or federal
8 office, position or employment, either elective or appointive, except as
9 a member of the armed forces of the United States or of this state.

10 (c) At least one member of the board shall be knowledgeable and
11 experienced in finance, investments, or other business management-
12 related field. No two members may be appointed to the board who share
13 substantially similar professional or occupational backgrounds.

14 Sec. 37.13.090. QUORUM. Two members of the board constitute a
15 quorum for the transaction of business and the exercise of the powers
16 and duties of the board.

17 Sec. 37.13.100. COMPENSATION OF TRUSTEES. Trustees serve without
18 compensation except that each member may be reimbursed by the fund for
19 travel and per diem expenses at the rate set by law for members of
20 boards and commissions.

21 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
22 determine the salary of an executive director. The executive director
23 may, with the approval of the board, select and employ additional staff
24 as necessary. The executive director may not be a trustee. The execu-
25 tive director and all employees of the board are in the exempt service
26 under AS 39.25.

27 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Trustees are subject
28 to the provisions of AS 39.50.

29 (b) No member or employee of the board shall acquire an interest,

1 direct or indirect, in a corporation, company, association, or project
2 owned, controlled, or invested in by the permanent fund. If a member or
3 employee owns or controls an interest, he shall immediately disclose the
4 interest in writing to the board and refrain from participating in any
5 manner in any board activity relating to that interest.

6 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-person rule
7 is applicable to the board in its management and investment of permanent
8 fund assets. In making investments, the board shall exercise the judg-
9 ment and care under the circumstances then prevailing which an insti-
10 tutional investor of ordinary prudence, discretion, and intelligence
11 exercises in the management of large investments entrusted to it not in
12 regard to speculation but in regard to the permanent disposition of
13 funds, considering the probable income from them as well as probable
14 safety of capital.

15 (b) The board shall seek to maintain a reasonable diversification
16 of type and maturity of investments in its investments.

17 (c) The board shall submit long-range and quarterly investment
18 reports to the State Investment Oversight Committee.

19 (d) The board may not borrow funds or guarantee loans made by any
20 other program or association.

21 (e) The board may, except as provided by (f) of this section enter
22 into and enforce all contracts necessary, convenient or desirable for
23 purposes of the fund.

24 (f) The permanent fund shall be used only for income-producing
25 investments. The board may contract only with private persons or
26 organizations to recommend or select investments for the permanent fund.
27 Investments shall be selected in accordance with (g) of this section.

28 (g) Subject to (a) of this section the board may invest its assets
29 in obligations of the United States or obligations for which the faith

1 and credit of the United States are pledged for payment of principal and
2 interest; loans secured by first liens on unencumbered realty or lease-
3 hold; and corporate stock and corporate obligations which under the
4 Securities Act of 1933 are freely tradeable.

5 (1) No portion of the assets of the fund may be used in the
6 purchase of stocks of any company whose primary business is the explo-
7 ration or development of oil or gas; nor in the purchase of stock of any
8 corporation which is not paying dividends on that stock in cash at the
9 time of purchase; nor in the purchase of bonds of any corporation, upon
10 which any regular interest payment has been defaulted at any time within
11 five years before purchase, except bonds never in default but which have
12 been outstanding for less than five years.

13 (2) No portion of the assets of the fund may be used in the
14 purchase of stocks of an issuer if immediately following the purchase

15 (A) the proportionate market value of all stocks of the
16 issuer held by the fund would exceed the greater of 2 per cent of
17 the fund's equity assets or 125 per cent of the proportionate value
18 which the securities of the issuer represent in the Standard &
19 Poors 550 stock index;

20 (B) the aggregate market value of all stock of the
21 issuer held by the fund would exceed 3 per cent of the aggregate
22 market value of the issuer's outstanding equity security; or

23 (C) the proportionate market value of all stocks then
24 held by the fund in the issuer's industry would exceed the greater
25 of 6 per cent of the fund's equity assets or 250 per cent of the
26 proportionate value which the securities of that industry represent
27 to the Standard & Poors 550 Stock Index.

28 (3) No portion of the assets of the fund may be used in the
29 purchase of corporate obligations of an issuer if immediately following

1 the purchase the aggregate value of all obligations of that issuer would
2 exceed the lesser of 2 per cent of the total corporate obligations held
3 by the fund or 3 per cent of the aggregate market value of the issuer's
4 outstanding obligations.

5 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
6 the total amount of losses on the sales of securities, not offset by
7 gains on the sales of securities during that year, shall be computed,
8 with a portion of these losses to be deducted each fiscal year from the
9 interest and dividend income and the resulting amount of interest and
10 dividend income added to the principal of the fund. Losses taken on the
11 sales of bonds shall be accumulated over a period equal to the average
12 remaining life of the bonds sold, and losses taken on the sales of
13 stocks shall be accumulated within a period of five years, unless these
14 losses are offset by gains on future sales of securities. In any fiscal
15 year in which the gains on the sales of securities exceed the losses on
16 the sales of securities, the excess shall be added to the principal of
17 the fund.

18 Sec. 37.13.150. BOARD BUDGET. The board's operating budget is
19 from the general fund and is subject to the Executive Budget Act (AS
20 37.07).

21 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-
22 tee shall conduct annual operational and performance evaluations (post-
23 audits) of the board's investments and investment programs and report
24 the results to the State Investment Oversight Committee.

25 Sec. 37.13.170. REPORTS AND PUBLICATIONS. No later than the 20th
26 day of the legislative session, the board shall publish a report to the
27 governor, legislature, and the public in easily understandable language.
28 Each report must include financial statements audited by the Legislative
29 Budget and Audit Committee, a statement of the amount of money received

1 by the permanent fund from each investment during the period covered, a
2 statement of permanent fund investments, a description of permanent fund
3 investment activity during the period covered by the report, a com-
4 parison of the fund performance with the intended goals contained in
5 sec. 20 of this chapter, an examination of the impact of the investment
6 criteria of this chapter on the fund portfolio with recommendations of
7 any needed changes and any other information the board believes would be
8 of interest to the governor, the legislature, and the public. The
9 annual income statement and balance sheet of the permanent fund shall be
10 published in at least one newspaper in each judicial district. The
11 board may also publish other reports it considers desirable to carry out
12 its purpose.

13 * Sec. 3. AS 44 is amended by adding a new chapter to read:

14 CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT FUND.

15 Sec. 44.55.010. CREATION OF INVESTMENT FUND: FUNDING. (a) There
16 is created the Alaska Enterprise Investment Fund. The investment fund
17 is a public corporation and government instrumentality in the Department
18 of Revenue but has legal existence independent of and separate from the
19 state. The exercise by the investment fund of the powers conferred by
20 this chapter is considered an essential governmental function of the
21 state.

22 (b) One-sixth of the receipts of all mineral lease rentals, roy-
23 alties, royalty sale proceeds, and federal mineral revenue sharing pay-
24 ments and bonuses allocated to the permanent fund shall be paid directly
25 into the investment fund until a total of \$100,000,000 has been paid in.

26 Sec. 44.55.020. ALASKA ENTERPRISE INVESTMENT FUND POLICY BOARD.

27 (a) There is established the Alaska Enterprise Fund Policy Board con-
28 sisting of a person employed in the executive branch of state government
29 appointed by the governor and six public members appointed by the

1 governor with due regard for geographical representation and confirmed
2 by a majority of the members of the legislature in joint session. At
3 least two of the public members shall have broad experience in invest-
4 ment finance. The board shall elect one of the public members as
5 chairman and other officers they determine desirable.

6 (b) The six appointed members shall serve for four-year terms, and
7 they may be reappointed. Terms shall be staggered. Initial terms shall
8 be two members serving for two years, two members serving for three
9 years, and two members serving for four years. A member continues to
10 serve until his successor is appointed and confirmed.

11 (c) A majority of the policy board members constitutes a quorum
12 for the transaction of business by the board. Decisions of the board
13 shall be taken by a majority vote. The board shall hold at least one
14 public meeting each year.

15 (d) Members of the policy board receive \$_____ per meeting day if
16 they attend the meeting and are entitled to per diem and travel allow-
17 ances as are provided by law for members of state boards and commissions.

18 Sec. 44.55.030. REMOVAL AND VACANCIES ON BOARD. (a) The governor
19 may remove a policy board member from office by and with the consent of
20 a majority of the members of the legislature in joint session. The joint
21 session shall be held within 10 days from the date of removal if the
22 removal occurs while the legislature is in session or within 30 days of
23 convening of the legislature if the member was suspended. If the
24 legislature is not in session, the governor may suspend a member of the
25 policy board for cause. Upon suspension, a board member may not par-
26 ticipate in policy board business and may not be counted for purposes of
27 establishing a quorum. A suspended member shall continue to receive his
28 salary as a board member until the legislature in joint session consents
29 to his removal. If the legislature refuses to consent to his removal,

1 the member shall be reinstated to his position.

2 (b) A vacancy arising on the policy board shall be promptly filled
3 by appointment by the governor and confirmation by a majority of the
4 members of the legislature in joint session, and an appointee to fill a
5 vacancy shall hold office for the balance of the term for which his
6 predecessor on the board was appointed. If a vacancy arises on the
7 board while the legislature is not in session, the governor may appoint
8 an interim board member who shall exercise all powers and receive the
9 salary of a permanent board member until such time as the legislature in
10 joint session fails to confirm the interim member's appointment.

11 (c) A vacancy on the policy board does not impair the authority of
12 a quorum of the board to exercise all the powers and perform all the
13 duties of the board.

14 Sec. 44.55.040. DUTIES OF THE POLICY BOARD. The policy board
15 shall

16 (1) select and appoint the president and other members of the
17 Alaska Enterprise Investment Fund Investment Committee established in
18 sec. 50 of this chapter;

19 (2) annually review and approve long-range operating plans,
20 the budget for the forthcoming year, and the financial plan for the
21 following years;

22 (3) have responsibility on behalf of the bank for relations
23 with the general public, legislature, executive branch, local communi-
24 ties, and interest groups concerning all things excepting only those
25 matters that are the responsibility of the investment committee;

26 (4) review quarterly reports from the investment committee
27 concerning investment decisions and investment supervision, but the
28 board may not impose an investment decision upon, or override an invest-
29 ment decision of, the investment committee;

1 (5) review, consider and approve policies;

2 (6) establish an audit committee, consisting of the commis-
3 sioner of revenue and other members of the policy board to be designated
4 by the commissioner, which shall select independent outside auditors,
5 and receive all audit reports,

6 Sec. 44.55.050. ALASKA ENTERPRISE INVESTMENT FUND INVESTMENT
7 COMMITTEE. (a) There is established the Alaska Enterprise Investment
8 Fund Investment Committee, consisting of a president and four members
9 appointed by the policy board. No member of the policy board may be a
10 member of the investment committee. Members of the investment committee
11 shall be persons of recognized competence and wide experience in invest-
12 ments, finance, and other business management-related fields. A member
13 may be reappointed and continue to serve until his successor is ap-
14 pointed. The president and members shall serve for four-year terms.
15 Terms shall be staggered. Initial terms shall be one member serving for
16 one year, one member serving for two years, one member serving for three
17 years, and one member and the president serving for four years.

18 (b) Four members of the investment committee constitute a quorum.
19 Decisions of the committee shall be taken by majority vote.

20 (c) Members of the investment committee are in the exempt service
21 under AS 39.25 and receive an annual salary within Range 30 in the
22 salary schedule for state employees established by AS 39.27.011.

23 Sec. 44.55.060. DUTIES OF THE INVESTMENT COMMITTEE. The invest-
24 ment committee has sole responsibility to approve all investment pro-
25 posals.

26 Sec. 44.55.070. BUDGET. The investment fund operating budget is
27 from the general fund and is subject to the provisions of the Executive
28 Budget Act (AS 37.07).

29 Sec. 44.55.080. PERSONNEL OF INVESTMENT FUND. Policy board

1 members, investment committee members, and officers and staff of the
2 investment fund are in the exempt service under AS 39.25.

3 Sec. 44.55.090. FINDINGS. The legislature finds

4 (1) that investment in financially sound small and medium
5 scale productive private enterprises and community development projects
6 in the state, particularly in rural areas, is of benefit to the citizens
7 of the state;

8 (2) there is a shortage of investment capital for financially
9 sound small and medium scale productive private enterprises, and com-
10 munity development projects particularly in rural areas of the state;

11 (3) that the investment fund working with private financial
12 institutions to supplement but not supplant their services can help to
13 alleviate this shortage.

14 Sec. 44.55.100. PURPOSE. The purpose of the investment fund is
15 to provide capital at market rates and terms for small and medium scale
16 productive private enterprises, and community development projects
17 particularly in rural areas of the state.

18 Sec. 44.55.110. POWERS OF THE INVESTMENT FUND. (a) In carrying
19 out the corporate purposes of the investment fund, the policy board has
20 power to

21 (1) adopt, alter and use a corporate seal;

22 (2) prescribe, adopt, amend, and repeal bylaws;

23 (3) sue and be sued in the name of the investment fund;

24 (4) borrow funds, and in that connection furnish such collat-
25 eral or other security as it determines, except that investment fund
26 borrowing may not exceed one-half of its paid-in capital;

27 (5) guarantee obligations of another corporation or legal
28 entity in order to facilitate their sale;

29 (6) enter into agreements necessary or convenient in the

1 exercise of its powers and functions;

2 (7) acquire, hold, use, lease, sell or otherwise dispose of
3 property of any kind, real, personal or mixed, or any interest in it;

4 (8) contract with state, federal and other agencies to
5 develop needed information and analyses;

6 (9) do all acts and things necessary, convenient or desirable
7 to carry out the powers granted or implied in this chapter.

8 (b) In carrying out the corporate purposes of the investment fund,
9 the investment committee has the power to

10 (1) invest, in such form and such amounts as it considers
11 appropriate, by purchasing the capital stock of, or lending money to,
12 projects, except that any investment in the capital stock of or other
13 ownership interest in a project may not exceed 49 per cent of the
14 capital stock of, or other ownership interest in, the project, and no
15 loan or other investment in the project by the investment fund may
16 exceed 90 per cent of the cost of the project unless, in the judgment of
17 the committee, additional amounts must be loaned to protect the inter-
18 ests of the investment fund;

19 (2) deposit funds, or invest funds through the permanent fund
20 in such obligations as it may determine;

21 (3) buy and sell securities the investment fund has issued or
22 guaranteed or in which it has invested;

23 (4) do all acts and things necessary, convenient or desirable
24 to carry out the powers granted or implied in this chapter.

25 Sec. 44.55.120. INVESTMENTS. (a) In making investments, the
26 investment committee and staff shall exercise the judgment and care
27 under the circumstances then prevailing which a person of ordinary
28 prudence, discretion, and intelligence exercises in the management of
29 his own affairs taking into consideration the probable income from the

1 investments as well as probable safety of principal.

2 (b) An amount equal to at least 150 per cent of all guarantees by
3 the investment fund shall be invested in investment-grade securities.

4 (c) The investment committee may invest not more than 50 per cent
5 of the resources of the investment fund to provide a reasonable pro-
6 portion of longer-term investment capital for financing the establish-
7 ment, improvement, and expansion of productive private enterprises which
8 will benefit Alaskans, and for which sufficient capital is not available
9 from other sources on reasonable terms. These investments may take the
10 form of equity, debt, or debt guarantees.

11 (d) The committee may invest no more than 50 per cent of the
12 resources of the investment fund in financing a reasonable proportion of
13 the longer-term investment capital needs for community development
14 projects of municipalities and public corporate entities and private
15 dwellings in the state for which sufficient financing is not available
16 from other sources on reasonable terms. These investments may take the
17 form of debt or debt guarantees.

18 (e) The committee may not invest or guarantee obligations totaling
19 more than five per cent of the resources of the bank or \$1,500,000,
20 whichever is less, in a single project unless the legislature has
21 approved the investment by concurrent resolution.

22 (f) The committee may not undertake any financing for which, in
23 its opinion, sufficient private capital could be obtained on reasonable
24 terms.

25 (g) The committee may not assume responsibility for managing any
26 enterprise or project in which it has invested and may not exercise
27 voting rights for that purpose or for any other purpose which, in its
28 opinion, properly is within the scope of managerial control.

29 (h) The committee shall only undertake its financing on terms and

1 conditions which it considers appropriate, taking into account the terms
2 and conditions normally obtained by private investors for similar fi-
3 nancing, the requirements of the enterprise or project, the risks being
4 undertaken by the investment fund, and the participation of other
5 investors unless the legislature has appropriated funds for subsidizing
6 investments which in the opinion of the investment fund are of such high
7 priority that special terms and conditions are appropriate.

8 (i) The committee may seek to revolve the investment fund's money
9 by selling its investments to other investors whenever it can appropri-
10 ately do so on satisfactory terms.

11 (j) The committee shall seek to maintain a reasonable diversifi-
12 cation in its investments.

13 (k) The committee shall only consider investment proposals after
14 the applicant for an investment has submitted a detailed proposal to the
15 committee's staff and the staff has prepared a written report recommend-
16 ing the investment after a study of its merits.

17 (l) The committee shall analyze the economic and other effects of
18 an investment decision, including the effects on employment, income
19 distribution, environment, health, social and other factors. The
20 committee shall be sensitive to the views of affected local communities
21 and shall include an analysis of those views in proposals for large
22 investments.

23 (m) The committee may guarantee qualifying loans made by financial
24 intermediaries in order to facilitate investment by the intermediaries
25 in specific enterprises or projects whose individual financing require-
26 ments are not, in the opinion of the committee, large enough to warrant
27 its direct supervision.

28 (n) The committee shall provide for operational and performance
29 evaluations (post-audits) of its investments and investment programs and

1 report the results to the policy board.

2 (o) Nothing in this section prevents the investment committee, in
3 the event of actual or threatened default on any of its investments,
4 actual or threatened insolvency of the enterprise in which the invest-
5 ment has been made, or other situations which, in the opinion of the
6 investment committee, threaten to jeopardize the investment, from taking
7 such action and exercising such rights as it may consider necessary for
8 the protection of its interests.

9 Sec. 44.55.130. INITIAL DETERMINATIONS. Before beginning its
10 financing operations, the policy board shall render a detailed report to
11 the legislature which shall

12 (1) define the sectors which need financing for expansion of
13 existing projects or the development of new projects;

14 (2) define the size and nature of projects which are feasible
15 for investment fund financing;

16 (3) determine specific projects which are feasible for invest-
17 ment fund and private financing;

18 (4) determine the availability of private investment capital
19 for the projects it determines are feasible;

20 (5) forecast the capital requirements of the investment fund
21 for the first three years of its operations.

22 Sec. 44.55.140. REPORTS AND PUBLICATIONS. The policy board shall
23 publish an annual report to the governor, legislature and the public.
24 Each report shall include financial statements audited by independent
25 outside auditors, a statement of the amount of money received by the
26 investment fund from each source during the period covered, a statement
27 of investment fund investments, a description of investment fund invest-
28 ment activity during the period covered by the report, an analysis of
29 economic and other effects of investment decisions including, but not

1 limited to, the effects on employment, income distribution, environment,
2 health, social and other factors, and any other information the policy
3 board believes would be of interest to the governor, the legislature and
4 the public. The investment fund may also publish such other reports as
5 it considers desirable to carry out its purpose.

6 Sec. 44.55.150. CONFLICT OF INTEREST. (a) Members of the policy
7 board and investment committee are subject to the provisions of AS 39.50

8 (b) Members of the investment committee shall disclose their
9 financial interest in an investment proposal and disqualify themselves
10 from voting on any investment proposal in which they have a financial
11 interest. The committee may not make an investment in any project or
12 enterprise in which officers of the bank have a financial interest.
13 Members of the policy board are prohibited from all attempts to influ-
14 ence the investment committee, its president or staff in the discharge
15 of their ordinary operating duties. All officers of the investment fund
16 in the discharge of their offices owe their duty entirely to the invest-
17 ment fund and no other authority.

18 Sec. 44.55.160. POLITICAL ACTIVITIES. The members of the policy
19 board, members of the investment committee, and officers and staff of
20 the investment fund may not engage in partisan political activities.
21 The resources of the investment fund may not be used to finance any
22 partisan political activities.

23 Sec. 44.55.170. PUBLIC ACCESS TO INFORMATION. Information in the
24 possession of the investment fund is a public record, except that infor-
25 mation which discloses the particulars of the business or affairs of a
26 private enterprise or investor is confidential and is not a public
27 record. Confidential information may be disclosed only for the purposes
28 of an official law enforcement investigation or when its production is
29 required in a court proceeding. These restrictions do not prohibit the

1 publication of statistics presented in a manner that prevents the
2 identification of particular reports, items, persons, or enterprises.

3 Sec. 44.55.180. TAX EXEMPTION. The investment fund is exempt from
4 all taxes and assessments in the state. All security instruments issued
5 by the investment fund, their transfer, and their income are exempt from
6 all taxes and assessments in the state.

7 Sec. 44.55.190. DEFINITIONS. In this chapter

8 (1) "board" or "policy board" means the Alaska Enterprise
9 Investment Policy Board established by sec. 20 of this chapter;

10 (2) "business enterprise" means a private corporation, firm,
11 partnership or sole proprietorship;

12 (3) "committee" or "investment committee" means the Alaska
13 Enterprise Investment Fund Investment Committee established by sec. 50
14 of this chapter;

15 (4) "fund" or "investment fund" means the Alaska Enterprise
16 Investment Fund.

17 * Sec. 4. AS 39.25.110 is amended by adding new paragraphs to read:

18 (21) members of the policy board and investment committee, and
19 the president, officers, and staff of the Alaska Enterprise Investment
20 Fund;

21 (22) members of the board of trustees, the executive director,
22 and staff of the Alaska Permanent Fund Board of Trustees.

23 * Sec. 5. AS 39.50.200(9) is amended by adding new subparagraphs to read:

24 (NN) Alaska Enterprise Investment Fund Policy Board and
25 Alaska Enterprise Investment Fund Investment Committee;

26 (OO) Alaska Permanent Fund Board of Trustees.

27 * Sec. 6. This Act takes effect immediately in accordance with AS 01.10.
28 070(c).

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28 070(c).

investigators can share supporting services. However, this shall not be interpreted to prohibit the department from awarding grants to existing educational institutions.

(4) The department may give preference to research centers which make information available to individuals, small businesses, and small communities seeking the use of renewable energy sources in their homes, plants, places of business, and small communities.

(5) All information resulting from such research shall be made available to the public and shall not become the private property of or under the exclusive control of any one company or person.

PAGE 10, LINE 19 New Section (e)
board
(6) The ~~department~~ is under no requirement to expend or commit available ~~alternative energy research, development and demonstration~~ funds when in its judgement such expenditures or commitments would be unproductive.

The following language is from administrative regulations adopted by the Department of Natural Resources and Conservation to implement this act:

(1) It is the objective of the Department to orient the funding program toward the small scale, individual, single unit dwelling type of application. Large scale, capital intensive project applications will be accepted, but the program emphasis will be directed toward the aforementioned type of applications.

(3)(b) The application shall contain a statement agreeing that all materials submitted by the applicant to the Department is subject to public scrutiny.

*Nothing about income
If want no special treatment, 500.1*

w.o. 4434

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Renewable Resources
7 Corporation."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37 is amended by adding a new chapter to read:

10 CHAPTER 12. ALASKA RENEWABLE RESOURCES CORPORATION.

11 Sec. 37.12.010. DECLARATION OF POLICY. It is the policy of the
12 state to

13 (1) rehabilitate, enhance, and develop its renewable re-
14 sources and, insofar as is consistent with sound resource management
15 policies, develop its human resources by providing maximum opportunities
16 for employment and a higher standard of living for its citizens; and

17 (2) utilize the funds created by ch. 11 of this title to
18 further the (A) development of renewable resource industries that will
19 contribute to a stable self-sustaining state economy, employment oppor-
20 tunities, and lifestyle alternatives for its citizens, and (B) com-
21 mercial, traditional, and common uses of the state's renewable resources

22 Sec. 37.12.020. FINDINGS. (a) The legislature finds that Alaska
23 has vast quantities of renewable resources that are not being utilized
24 to their full potential and that great opportunities for increasing the
25 wealth of the state lie in the expanded use of these resources. Many
26 problems which confront the state, including lack of full employment and
27 self-sustaining, renewable resource industries, could be mitigated by
28 the expanded use and development of its renewable resources.

(b) It is further found that Alaska's economy has historically

1 depended upon sporadic and non-stable development, most often relating
2 to nonrenewable resource exploitation.

3 (c) It is further found that several key factors have contributed
4 to the slow development of renewable resource industries, including,

5 (1) reductions in research and development financing and
6 venture capital financing;

7 (2) a lack of knowledge within the business and financial
8 communities about conditions affecting renewable resource industrial
9 development in the state; and

10 (3) resource management uncertainties which have discouraged
11 investment and technological development.

12 (d) It is further found that the state's policy of assisting the
13 development of viable industries is best accomplished by providing
14 public assistance to the private sector in ways necessary and feasible
15 to identify and promote new industries which will use the state's renew-
16 able resources to bring maximum benefits to the state and its citizens.

17 (e) It is further found that some of the state's renewable re-
18 sources will be most appropriately utilized by reserving their use to
19 noncommercial activities for the purposes of sustaining traditional
20 lifestyles, providing recreational opportunities, and protecting the
21 natural environment, all of which are culturally and historically impor-
22 tant to the citizens of the state.

23 Sec. 37.12.030. ALASKA RENEWABLE RESOURCES CORPORATION CREATED.

24 There is created the Alaska Renewable Resources Corporation to carry out
25 the purposes of this chapter. The corporation is a public corporation
26 of the state and an instrumentality of the state within the Department
27 of Revenue, but has a legal existence independent of and separate from
28 the state and has continuing succession until its existence is termi-
29 nated by law. The exercise by the corporation of the powers conferred

1 by this chapter is considered an essential function of the state.

2 Sec. 37.12.040. PURPOSES. The purposes of the corporation are to

3 (1) facilitate the rehabilitation, enhancement, and develop-
4 ment of the state's renewable resources so as to foster a self-sus-
5 taining state economy;

6 (2) sponsor research, development, and demonstration of tech-
7 nologies and innovations for the rehabilitation and enhancement of the
8 state's renewable resources to achieve their most appropriate use;

9 (3) identify new products, markets, and technologies for
10 renewable resource industries in the state; stimulate the research and
11 development of these products, markets, and technologies; assist in the
12 demonstration of their technical and economic feasibility; and assist in
13 their introduction into commercial markets.

14 Sec. 37.12.050. ALLOCATION. There shall be allocated to the cor-
15 poration from the receipts described in AS 37.11.020 at least five per
16 cent of the receipts paid the state from mineral lease bonuses and
17 rentals for state land and royalties derived from minerals produced on
18 state land.

19 Sec. 37.12.060. BOARD OF TRUSTEES. A board of trustees of the
20 corporation is established as its governing body.

21 Sec. 37.12.070. COMPOSITION OF THE BOARD OF TRUSTEES. The board
22 of trustees consists of three members appointed by the governor and
23 confirmed by a majority of the members of the legislature in joint ses-
24 sion. The board shall annually elect a chairman from among its members.
25 A chairman may not succeed himself.

26 Sec. 37.12.080. TERM OF OFFICE. The members of the board of
27 trustees shall be appointed for terms of four years, and they may be
28 reappointed. Terms shall be staggered. The initial terms shall be one
29 member serving for two years, one member serving for three years,

1 and one member serving for four years.

2 Sec. 37.12.090. REMOVAL AND VACANCIES. (a) The governor may
3 remove a board member from office by and with the consent of a majority
4 of the members of the legislature in joint session. A removal by the
5 governor shall be in writing and state the reason for removal. If the
6 legislature is not in session, the governor may suspend a member of the
7 board. Upon suspension, a board member may not participate in board
8 business and may not be counted for the purpose of establishing a quorum.
9 A suspended member shall continue to receive his salary as a board mem-
10 ber until the legislature in joint session consents to his removal. The
11 joint session shall be held within 30 days from the date of removal if
12 the removal occurs while the legislature is in session or within 30 day
13 of convening of the legislature if the legislature is not in session.
14 If the legislature refuses to consent to his removal, the board member
15 shall be reinstated to his position.

16 (b) A vacancy on the board shall be promptly filled by appointment
17 by the governor and confirmation by a majority of members of the legis-
18 lature in joint session. An appointee to fill a vacancy shall hold
19 office for the balance of the term for which his predecessor on the
20 board was appointed. If a vacancy arises on the board while the legis-
21 lature is not in session, the governor may appoint an interim board
22 member until such time as the legislature in joint session fails to
23 confirm the interim member's appointment.

24 (c) A vacancy on the board does not impair the authority of a
25 quorum of the board to exercise all the powers and perform all the
26 duties of the board.

27 Sec. 37.12.100. QUALIFICATIONS OF BOARD MEMBERS. (a) No person
28 may be appointed to the board who has not been a resident of the state
29 for at least three years.

1 (b) No member of the board may hold any other state or federal
2 office, position, or employment, whether elective or appointive, except
3 as a member of the armed forces of the United States or the state.

4 Sec. 37.12.110. QUORUM. Two members of the board constitute a
5 quorum for the transaction of business and the exercise of the powers
6 and duties of the board.

7 Sec. 37.12.120. COMPENSATION OF BOARD MEMBERS. Board members are
8 in the exempt service under AS 39.25 and receive an annual salary within
9 Range 30 of the salary schedule for state employees established by
10 AS 39.27.011.

11 Sec. 37.12.130. EMPLOYMENT OF PERSONNEL. The board may employ
12 and determine the salary of an executive director. The executive direc-
13 tor may, with the approval of the board, select and employ additional
14 staff as necessary. The executive director and all employees of the
15 board are in the exempt service under AS 39.25.

16 Sec. 37.12.140. CONFLICTS OF INTEREST. (a) Members of the board
17 of trustees are subject to the provisions of AS 39.50.

18 (b) No member or employee of the board may acquire an interest,
19 direct or indirect, in a corporation, company, association, or project
20 owned, controlled, or invested in by the corporation. If a member or
21 employee owns or controls such an interest, he shall immediately dis-
22 close the interest in writing to the board and refrain from participat-
23 ing in any manner in any board activity relating to that interest.

24 Sec. 37.12.150. POWERS. In carrying out the corporate powers of
25 the corporation, the board may

- 26 (1) adopt, alter, and use a corporate seal;
- 27 (2) prescribe, adopt, amend, and repeal bylaws;
- 28 (3) sue and be sued in the name of the corporation;
- 29 (4) enter into any agreements necessary to the exercise of

1 its powers and functions;

2 (5) accept grants from and contract with the federal govern-
3 ment and the state or its political subdivisions and to that end comply
4 with the provisions of federal, state, or local programs where neces-
5 sary, except that it may not enter into any agreements whereby any
6 permanent state or local government position is funded or partially
7 funded in connection with a project;

8 (6) accept grants and loans from other sources than those in
9 (5) of this section to be held and used for the purposes of the corpora-
10 tion;

11 (7) appear in behalf of the corporation before boards, com-
12 missions, departments, or other agencies of municipal, state, or federal
13 government;

14 (8) acquire, hold, use, lease, sell, or otherwise dispose of
15 property of any kind, real, personal, or mixed, or any interest in it;

16 (9) hold patents, copyrights, trademarks, royalties, or any
17 other evidences of protection or exclusivity as to any products or
18 technology issued under the laws of the United States or any state or
19 nation;

20 (10) prepare, publish, and distribute technical studies,
21 reports, bulletins and other materials it considers appropriate;

22 (11) contract or otherwise provide for technical assistance
23 for applicants and recipients drawing on local resources whenever
24 possible;

25 (12) make financial assistance available in the form of grants
26 loans, loan guarantees, or other appropriate forms to public research
27 and development groups in the state in order to facilitate investment
by the board in specific projects which do not warrant direct super-
28 vision by the corporation;

1 (13) invest, in such form as it considers appropriate, in
2 projects which have income-producing potential;

3 (14) provide grants only to projects or demonstration of
4 projects which do not yet have income-producing potential but which are
5 commercially promising or have potentially broad application to the
6 public;

7 (15) adopt regulations to implement this chapter;

8 (16) do all acts and things necessary or desirable to carry
9 out the purposes of the corporation.

10 Sec. 37.12.160. DUTIES. In carrying out the purposes of this
11 chapter, the board shall

12 (1) seek to maintain the productivity of healthy renewable
13 resources and expand the productivity of depleted or underutilized
14 renewable resources;

15 (2) provide financial assistance for projects which the board
16 finds will accomplish the purposes of the corporation as set out in sec
17 40 of this chapter;

18 (3) promote the utilization of the state's renewable resources
19 in the state and the development of import substitution and export
20 markets;

21 (4) seek to distribute the benefits of financial assistance
22 equitably among the areas of the state, different renewable resources,
23 and the citizens of the state;

24 (5) annually evaluate and prioritize areas for potential
25 financial assistance;

26 (6) monitor approved projects for compliance with this chap
27 ter and provide operational and performance evaluations (post-audits) of
28 projects receiving financial assistance and an overall assessment,
29 expressed in qualitative and quantitative terms, of the degree to which

1 the purposes of the corporation, as set out in sec. 40 of this chapter,
2 have been achieved; and

3 (7) attempt to fund activities which will tend to maximize
4 returns to the state and local governments and its citizens in such
5 forms as tax revenues and resident employment and income.

6 Sec. 37.12.170. FINANCIAL ASSISTANCE. (a) In providing financial
7 assistance, the board shall

8 (1) consider the proposals of qualified applicants only after
9 the applicant has submitted a detailed proposal in the form prescribed
10 by the board; no assistance may be approved by the board unless it finds
11 in writing, that

12 (A) the proposed project, if successful, will further
13 the purposes of the corporation as set out in sec. 40 of this
14 chapter;

15 (B) the proposed project is likely to be technologically
16 or economically feasible;

17 (C) private financing cannot reasonably be undertaken
18 without aid or that financial participation is not otherwise
19 available;

20 (D) the applicant has agreed that if new renewable
21 resource industrial activity results from the proposed project,
22 his best efforts will be employed to keep that activity in the
23 state for a minimum period of time specified by the board;

24 (E) the applicant demonstrates sufficient technical and
25 business expertise to accomplish the objectives of the proposed
26 project; where that expertise is found to be lacking, the board
27 may provide technical or managerial assistance;

28 (F) the applicant has provided sufficient life cycle
29 cost data; such data shall include analysis of design and facility
30 costs for project implementation; cost of project support
31 operations and maintenance; and project support
32 costs.

All issues for review
(i) the proposal contains an adequate plan for
project financing including a
complete budget and a funding plan for
commercial activities.

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(G) potential resource use conflicts that may result from the proposed project are identified, and plans to mitigate or resolve those conflicts and to preserve for the future options for the use of the state's renewable resources are included in the application; if there are conflicts that cannot practically be resolved without substantially affecting the project, the board may approve the project notwithstanding the conflicts and shall make a finding to that effect which shall include an analysis of the conflicts, methods of mitigating or resolving them, and the resulting effect on the project;

(H) if the proposed project involves the use of a renewable resource, that use constitutes an appropriate use of that resource;

(2) use the financial mechanism most appropriate to the conditions of the applicant and the proposed project and which will most effectively utilize the funds available; grants may be utilized when other mechanisms are not feasible and when the benefits of the grant will accrue to the general public;

(3) consider regional preferences and priorities in evaluating projects.

(b) The board may not

(1) invest more than five per cent of the resources of the corporation or \$1,500,000, whichever is less, in a single project or applicant unless the legislature has approved the investment by concurrent resolution;

(2) invest in more than 49 per cent of the outstanding corporate stock or other corporate obligations issued by an applicant unless the legislature has approved the investment by concurrent

1 resolution;

2 (3) make a loan for a period in excess of 20 years unless the
3 legislature has approved the loan by concurrent resolution; or

4 (4) assume the responsibility for management of any project
5 in which it has invested and may not exercise voting rights for that
6 purpose or for any other purpose which is within the scope of managerial
7 control.

8 (c) Nothing in this section prevents the board from taking such
9 action and exercising such rights as it considers necessary for the
10 protection of its financial interests in the event of

11 (1) actual or threatened default on any of the board's
12 investments;

13 (2) actual or threatened insolvency of a project in which the
14 board has made an investment; or

15 (3) any other circumstance or event which jeopardizes an
16 investment made by the board.

17 (d) Projects for which financial assistance is granted shall
18 comply with all applicable provisions of law.

19 Sec. 37.12.180. ELIGIBILITY FOR FINANCIAL ASSISTANCE. The board
20 may grant financial assistance if it finds that an applicant is quali-
21 fied to receive assistance. An applicant is qualified if

22 (1) he has submitted a proposal to the board in accordance
23 with sec. 170(a)(1) of this chapter;

24 (2) he is a resident of the state or, if the applicant is a
25 partnership, corporation, or other association, it is owned by a
26 majority who are residents of the state; and

27 (3) his projects which have previously received financial
28 assistance from the corporation, if any, have complied with all require-
29 ments of that assistance and have performed with sufficient success or

1 promise to warrant further aid.

2 Sec. 37.12.190. REPORTS AND PUBLICATIONS. (a) The board shall
3 prepare and distribute in non-technical language materials describing
4 the purposes and activities of the corporation.

5 (b) The board shall publish an annual report for the governor, the
6 legislature, and the public at the time of submitting its annual budget
7 request. Each annual report shall include financial statements and
8 audit reports, a statement detailing the sources from which the corpora-
9 tion received money, a statement detailing the investments made by the
10 corporation, a summary and evaluation of the data required by sec.
11 160(5) and (6) of this chapter, and any other information that the board
12 of trustees believes would be of interest to the recipients of the
13 report.

14 Sec. 37.12.200. BUDGET AND APPROPRIATIONS. The corporation shall
15 submit its annual budget to the legislature through the governor as pro-
16 vided for state agencies by the Executive Budget Act (AS 37.07). The
17 budget shall include all funds received by the corporation whether
18 through allocations made by this chapter, appropriation, or otherwise.
19 The corporation may expend money directly appropriated by the legislature
20 only as authorized by the legislature. The total amount of the corpora-
21 tion's operating budget shall be specified as a separate item of its
22 budget and be appropriated from the general fund.

23 Sec. 37.12.210. ANNUAL AUDIT. The corporation shall have its
24 financial record audited annually by a certified public accountant. The
25 legislative auditor may prescribe the form and content of the financial
26 record of the corporation and shall have access to these records at any
27 time.

28 Sec. 37.12.220. DEFINITIONS. In this chapter, unless the context
29 otherwise requires,

1 (1) "applicant" means a person making application to the
2 corporation for financial assistance;

3 (2) "appropriate use" means (definition to be supplied by
4 other source);

5 (3) "board" means the Board of Trustees of the Alaska
6 Renewable Resources Corporation;

7 (4) "corporation" means the Alaska Renewable Resources
8 Corporation;

9 (5) "project" means products, markets, innovation, or tech-
10 nological developments for the rehabilitation, enhancement, or
11 development of renewable resources and includes applied research for
12 those products, markets, or technological developments;

13 (6) "rehabilitation, enhancement, and development" means any
14 activity or program which improves the health and well-being of a renew-
15 able resource or renewable resource population leading to an increase in
16 the quality or productivity of the resource and to an increase in the
17 benefits derived from the resource to the citizens of the state;

18 (7) "renewable resource" means non-human living organisms;
19 natural components of the environment, including the air, land, and
20 water; and energy systems which are naturally recurring or replenished.

21 * Sec. 2. AS 44.66.010(a) is amended by adding a new paragraph to read:

22 (6) Alaska Renewable Resources Corporation (AS 37.12.030) --
23 June 30, 1982.
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*Nothing at it in case
If want no special treatment, § 10.1*

v.o. 4434

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Renewable Resources
7 Corporation."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37 is amended by adding a new chapter to read:

10 CHAPTER 12. ALASKA RENEWABLE RESOURCES CORPORATION.

11 Sec. 37.12.010. DECLARATION OF POLICY. It is the policy of the
12 state to13 (1) rehabilitate, enhance, and develop its renewable re-
14 sources and, insofar as is consistent with sound resource management
15 policies, develop its human resources by providing maximum opportunities
16 for employment and a higher standard of living for its citizens; and17 (2) utilize the funds created by ch. 11 of this title to
18 further the (A) development of renewable resource industries that will
19 contribute to a stable self-sustaining state economy, employment oppor-
20 tunities, and lifestyle alternatives for its citizens, and (B) com-
21 mercial, traditional, and common uses of the state's renewable resources22 Sec. 37.12.020. FINDINGS. (a) The legislature finds that Alaska
23 has vast quantities of renewable resources that are not being utilized
24 to their full potential and that great opportunities for increasing the
25 wealth of the state lie in the expanded use of these resources. Many
26 problems which confront the state, including lack of full employment and
27 self-sustaining, renewable resource industries, could be mitigated by
28 the expanded use and development of its renewable resources.

29 (b) It is further found that Alaska's economy has historically

1 depended upon sporadic and non-stable development, most often relating
2 to nonrenewable resource exploitation.

3 (c) It is further found that several key factors have contributed
4 to the slow development of renewable resource industries, including,

5 (1) reductions in research and development financing and
6 venture capital financing;

7 (2) a lack of knowledge within the business and financial
8 communities about conditions affecting renewable resource industrial
9 development in the state; and

10 (3) resource management uncertainties which have discouraged
11 investment and technological development.

12 (d) It is further found that the state's policy of assisting the
13 development of viable industries is best accomplished by providing
14 public assistance to the private sector in ways necessary and feasible
15 to identify and promote new industries which will use the state's renew-
16 able resources to bring maximum benefits to the state and its citizens.

17 (e) It is further found that some of the state's renewable re-
18 sources will be most appropriately utilized by reserving their use to
19 noncommercial activities for the purposes of sustaining traditional
20 lifestyles, providing recreational opportunities, and protecting the
21 natural environment, all of which are culturally and historically impor-
22 tant to the citizens of the state.

23 Sec. 37.12.030. ALASKA RENEWABLE RESOURCES CORPORATION CREATED.
24 There is created the Alaska Renewable Resources Corporation to carry on
25 the purposes of this chapter. The corporation is a public corporation
26 of the state and an instrumentality of the state within the Department
27 of Revenue, but has a legal existence independent of and separate from
28 the state and has continuing succession until its existence is termi-
29 nated by law. The exercise by the corporation of the powers conferred

1 by this chapter is considered an essential function of the state.

2 Sec. 37.12.040. PURPOSES. The purposes of the corporation are to

3 (1) facilitate the rehabilitation, enhancement, and develop-
4 ment of the state's renewable resources so as to foster a self-sus-
5 taining state economy;

6 (2) sponsor research, development, and demonstration of tech-
7 nologies and innovations for the rehabilitation and enhancement of the
8 state's renewable resources to achieve their most appropriate use;

9 (3) identify new products, markets, and technologies for
10 renewable resource industries in the state; stimulate the research and
11 development of these products, markets, and technologies; assist in the
12 demonstration of their technical and economic feasibility; and assist in
13 their introduction into commercial markets.

14 Sec. 37.12.050. ALLOCATION. There shall be allocated to the cor-
15 poration from the receipts described in AS 37.11.020 at least five per
16 cent of the receipts paid the state from mineral lease bonuses and
17 rentals for state land and royalties derived from minerals produced on
18 state land.

19 Sec. 37.12.060. BOARD OF TRUSTEES. A board of trustees of the
20 corporation is established as its governing body.

21 Sec. 37.12.070. COMPOSITION OF THE BOARD OF TRUSTEES. The board
22 of trustees consists of three members appointed by the governor and
23 confirmed by a majority of the members of the legislature in joint ses-
24 sion. The board shall annually elect a chairman from among its members.
25 A chairman may not succeed himself.

26 Sec. 37.12.080. TERM OF OFFICE. The members of the board of
27 trustees shall be appointed for terms of four years, and they may be
28 reappointed. Terms shall be staggered. The initial terms shall be one
29 member serving for two years, one member serving for three years,

1 and one member serving for four years.

2 Sec. 37.12.090. REMOVAL AND VACANCIES. (a) The governor may
3 remove a board member from office by and with the consent of a majority
4 of the members of the legislature in joint session. A removal by the
5 governor shall be in writing and state the reason for removal. If the
6 legislature is not in session, the governor may suspend a member of the
7 board. Upon suspension, a board member may not participate in board
8 business and may not be counted for the purpose of establishing a quorum.
9 A suspended member shall continue to receive his salary as a board mem-
10 ber until the legislature in joint session consents to his removal. The
11 joint session shall be held within 30 days from the date of removal if
12 the removal occurs while the legislature is in session or within 30 day
13 of convening of the legislature if the legislature is not in session.
14 If the legislature refuses to consent to his removal, the board member
15 shall be reinstated to his position.

16 (b) A vacancy on the board shall be promptly filled by appointment
17 by the governor and confirmation by a majority of members of the legis-
18 lature in joint session. An appointee to fill a vacancy shall hold
19 office for the balance of the term for which his predecessor on the
20 board was appointed. If a vacancy arises on the board while the legis-
21 lature is not in session, the governor may appoint an interim board
22 member until such time as the legislature in joint session fails to
23 confirm the interim member's appointment.

24 (c) A vacancy on the board does not impair the authority of a
25 quorum of the board to exercise all the powers and perform all the
26 duties of the board.

27 Sec. 37.12.100. QUALIFICATIONS OF BOARD MEMBERS. (a) No person
28 may be appointed to the board who has not been a resident of the state
29 for at least three years.

1 (b) No member of the board may hold any other state or federal
2 office, position, or employment, whether elective or appointive, except
3 as a member of the armed forces of the United States or the state.

4 Sec. 37.12.110. QUORUM. Two members of the board constitute a
5 quorum for the transaction of business and the exercise of the powers
6 and duties of the board.

7 Sec. 37.12.120. COMPENSATION OF BOARD MEMBERS. Board members are
8 in the exempt service under AS 39.25 and receive an annual salary within
9 Range 30 of the salary schedule for state employees established by
10 AS 39.27.011.

11 Sec. 37.12.130. EMPLOYMENT OF PERSONNEL. The board may employ
12 and determine the salary of an executive director. The executive direc-
13 tor may, with the approval of the board, select and employ additional
14 staff as necessary. The executive director and all employees of the
15 board are in the exempt service under AS 39.25.

16 Sec. 37.12.140. CONFLICTS OF INTEREST. (a) Members of the board
17 of trustees are subject to the provisions of AS 39.50.

18 (b) No member or employee of the board may acquire an interest,
19 direct or indirect, in a corporation, company, association, or project
20 owned, controlled, or invested in by the corporation. If a member or
21 employee owns or controls such an interest, he shall immediately dis-
22 close the interest in writing to the board and refrain from participat-
23 ing in any manner in any board activity relating to that interest.

24 Sec. 37.12.150. POWERS. In carrying out the corporate powers of
25 the corporation, the board may

- 26 (1) adopt, alter, and use a corporate seal;
27 (2) prescribe, adopt, amend, and repeal bylaws;
28 (3) sue and be sued in the name of the corporation;
29 (4) enter into any agreements necessary to the exercise of

its powers and functions;

(5) accept grants from and contract with the federal government and the state or its political subdivisions and to that end comply with the provisions of federal, state, or local programs where necessary, except that it may not enter into any agreements whereby any permanent state or local government position is funded or partially funded in connection with a project;

(6) accept grants and loans from other sources than those in (5) of this section to be held and used for the purposes of the corporation;

(7) appear in behalf of the corporation before boards, commissions, departments, or other agencies of municipal, state, or federal government;

(8) acquire, hold, use, lease, sell, or otherwise dispose of property of any kind, real, personal, or mixed, or any interest in it;

(9) hold patents, copyrights, trademarks, royalties, or any other evidences of protection or exclusivity as to any products or technology issued under the laws of the United States or any state or nation;

(10) prepare, publish, and distribute technical studies, reports, bulletins and other materials it considers appropriate;

(11) contract or otherwise provide for technical assistance for applicants and recipients drawing on local resources whenever possible;

(12) 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 of the board in specific projects which do not warrant direct supervision by the corporation;

1 (13) invest, in such form as it considers appropriate, in
2 projects which have income-producing potential;

3 (14) provide grants only to projects or demonstration of
4 projects which do not yet have income-producing potential but which are
5 commercially promising or have potentially broad application to the
6 public;

7 (15) adopt regulations to implement this chapter;

8 (16) do all acts and things necessary or desirable to carry
9 out the purposes of the corporation.

10 Sec. 37.12.160. DUTIES. In carrying out the purposes of this
11 chapter, the board shall

12 (1) seek to maintain the productivity of healthy renewable
13 resources and expand the productivity of depleted or underutilized
14 renewable resources;

15 (2) provide financial assistance for projects which the board
16 finds will accomplish the purposes of the corporation as set out in section
17 40 of this chapter;

18 (3) promote the utilization of the state's renewable resources
19 in the state and the development of import substitution and export
20 markets;

21 (4) seek to distribute the benefits of financial assistance
22 equitably among the areas of the state, different renewable resources,
23 and the citizens of the state;

24 (5) annually evaluate and prioritize areas for potential
25 financial assistance;

26 (6) monitor approved projects for compliance with this chapter
27 and provide operational and performance evaluations (post-audits) of
28 projects receiving financial assistance and an overall assessment,
29 expressed in qualitative and quantitative terms, of the degree to which

1 the purposes of the corporation, as set out in sec. 40 of this chapter,
2 have been achieved; and

3 (7) attempt to fund activities which will tend to maximize
4 returns to the state and local governments and its citizens in such
5 forms as tax revenues and resident employment and income.

6 Sec. 37.12.170. FINANCIAL ASSISTANCE. (a) In providing financial
7 assistance, the board shall

8 (1) consider the proposals of qualified applicants only after
9 the applicant has submitted a detailed proposal in the form prescribed
10 by the board; no assistance may be approved by the board unless it finds
11 in writing, that

12 (A) the proposed project, if successful, will further
13 the purposes of the corporation as set out in sec. 40 of this
14 chapter;

15 (B) the proposed project is likely to be technologically
16 or economically feasible;

17 (C) private financing cannot reasonably be undertaken
18 without aid or that financial participation is not otherwise
19 available;

20 (D) the applicant has agreed that if new renewable
21 resource industrial activity results from the proposed project,
22 his best efforts will be employed to keep that activity in the
23 state for a minimum period of time specified by the board;

24 (E) the applicant demonstrates sufficient technical and
25 business expertise to accomplish the objectives of the proposed
26 project; where that expertise is found to be lacking, the board
27 may provide technical or managerial assistance;

28 (F) the applicant has provided sufficient life cycle
29 cost data; such data shall include analysis of design and facility
30 costs for project implementation; cost estimates for project
31 maintenance, management and operating costs; and project revenue
32 estimates.

All within the same document
 (i) *the proposal contains an adequate plan for project management including a complete budget and a contingency plan for commercial activities.*

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(G) potential resource use conflicts that may result from the proposed project are identified, and plans to mitigate or resolve those conflicts and to preserve for the future options for the use of the state's renewable resources are included in the application; if there are conflicts that cannot practically be resolved without substantially affecting the project, the board may approve the project notwithstanding the conflicts and shall make a finding to that effect which shall include an analysis of the conflicts, methods of mitigating or resolving them, and the resulting effect on the project;

(H) if the proposed project involves the use of a renewable resource, that use constitutes an appropriate use of that resource;

(2) use the financial mechanism most appropriate to the conditions of the applicant and the proposed project and which will most effectively utilize the funds available; grants may be utilized when other mechanisms are not feasible and when the benefits of the grant will accrue to the general public;

(3) consider regional preferences and priorities in evaluating projects.

(b) The board may not

(1) invest more than five per cent of the resources of the corporation or \$1,500,000, whichever is less, in a single project or applicant unless the legislature has approved the investment by concurrent resolution;

(2) invest in more than 49 per cent of the outstanding corporate stock or other corporate obligations issued by an applicant unless the legislature has approved the investment by concurrent

1 resolution;

2 (3) make a loan for a period in excess of 20 years unless the
3 legislature has approved the loan by concurrent resolution; or

4 (4) assume the responsibility for management of any project
5 in which it has invested and may not exercise voting rights for that
6 purpose or for any other purpose which is within the scope of managerial
7 control.

8 (c) Nothing in this section prevents the board from taking such
9 action and exercising such rights as it considers necessary for the
10 protection of its financial interests in the event of

11 (1) actual or threatened default on any of the board's
12 investments;

13 (2) actual or threatened insolvency of a project in which the
14 board has made an investment; or

15 (3) any other circumstance or event which jeopardizes an
16 investment made by the board.

17 (d) Projects for which financial assistance is granted shall
18 comply with all applicable provisions of law.

19 Sec. 37.12.180. ELIGIBILITY FOR FINANCIAL ASSISTANCE. The board
20 may grant financial assistance if it finds that an applicant is quali-
21 fied to receive assistance. An applicant is qualified if

22 (1) he has submitted a proposal to the board in accordance
23 with sec. 170(a)(1) of this chapter;

24 (2) he is a resident of the state or, if the applicant is a
25 partnership, corporation, or other association, it is owned by a
26 majority who are residents of the state; and

27 (3) his projects which have previously received financial
28 assistance from the corporation, if any, have complied with all require-
29 ments of that assistance and have performed with sufficient success or

1 promise to warrant further aid.

2 Sec. 37.12.190. REPORTS AND PUBLICATIONS. (a) The board shall
3 prepare and distribute in non-technical language materials describing
4 the purposes and activities of the corporation.

5 (b) The board shall publish an annual report for the governor, the
6 legislature, and the public at the time of submitting its annual budget
7 request. Each annual report shall include financial statements and
8 audit reports, a statement detailing the sources from which the corpora-
9 tion received money, a statement detailing the investments made by the
10 corporation, a summary and evaluation of the data required by sec.
11 160(5) and (6) of this chapter, and any other information that the board
12 of trustees believes would be of interest to the recipients of the
13 report.

14 Sec. 37.12.200. BUDGET AND APPROPRIATIONS. The corporation shall
15 submit its annual budget to the legislature through the governor as pro-
16 vided for state agencies by the Executive Budget Act (AS 37.07). The
17 budget shall include all funds received by the corporation whether
18 through allocations made by this chapter, appropriation, or otherwise.
19 The corporation may expend money directly appropriated by the legislature
20 only as authorized by the legislature. The total amount of the corpora-
21 tion's operating budget shall be specified as a separate item of its
22 budget and be appropriated from the general fund.

23 Sec. 37.12.210. ANNUAL AUDIT. The corporation shall have its
24 financial record audited annually by a certified public accountant. The
25 legislative auditor may prescribe the form and content of the financial
26 record of the corporation and shall have access to these records at any
27 time.

28 Sec. 37.12.220. DEFINITIONS. In this chapter, unless the context
29 otherwise requires,

1 (1) "applicant" means a person making application to the
2 corporation for financial assistance;

3 (2) "appropriate use" means (definition to be supplied by
4 other source);

5 (3) "board" means the Board of Trustees of the Alaska
6 Renewable Resources Corporation;

7 (4) "corporation" means the Alaska Renewable Resources
8 Corporation;

9 (5) "project" means products, markets, innovation, or tech-
10 nological developments for the rehabilitation, enhancement, or
11 development of renewable resources and includes applied research for
12 those products, markets, or technological developments;

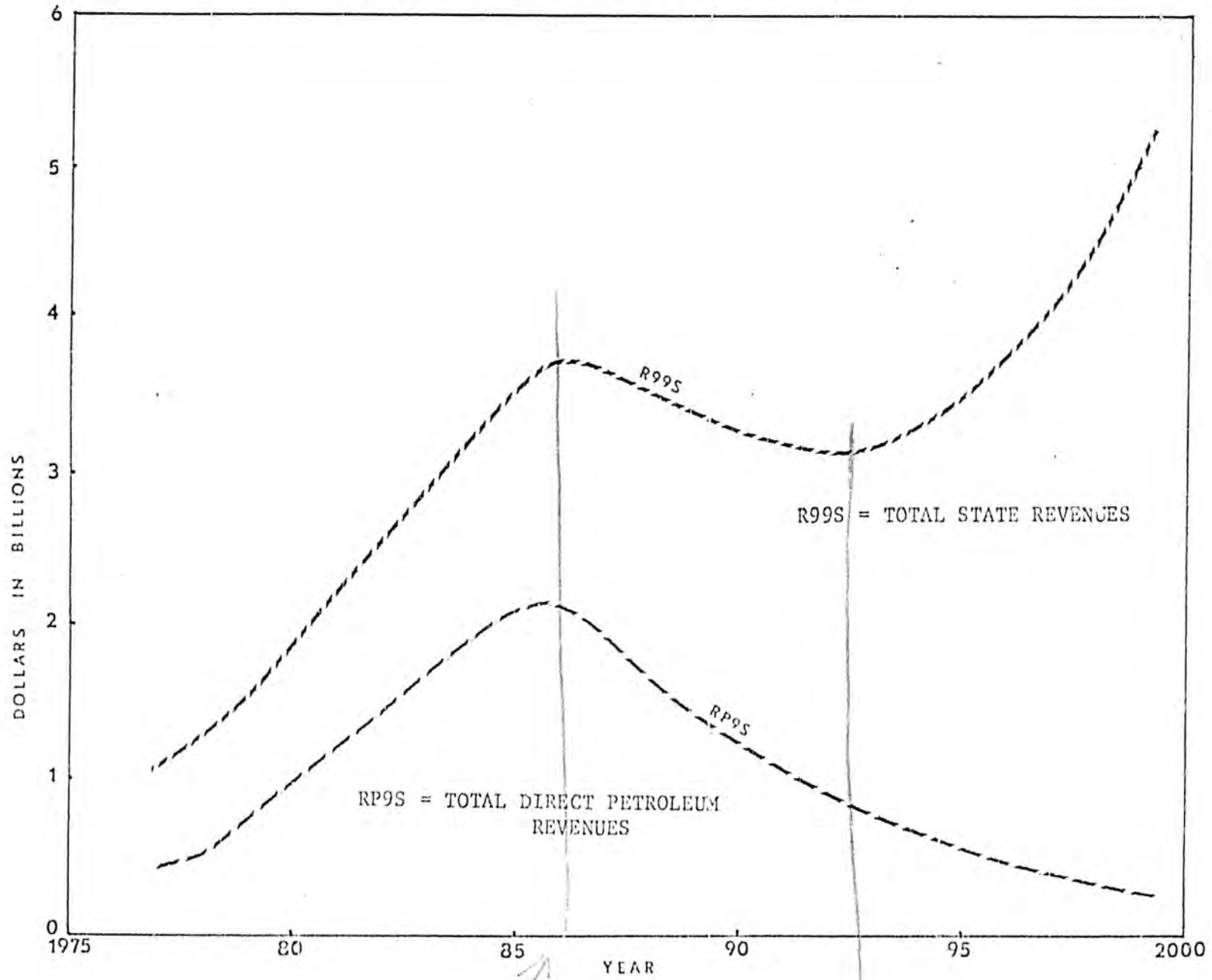
13 (6) "rehabilitation, enhancement, and development" means any
14 activity or program which improves the health and well-being of a renew-
15 able resource or renewable resource population leading to an increase in
16 the quality or productivity of the resource and to an increase in the
17 benefits derived from the resource to the citizens of the state;

18 (7) "renewable resource" means non-human living organisms;
19 natural components of the environment, including the air, land, and
20 water; and energy systems which are naturally recurring or replenished.

21 * Sec. 2. AS 44.66.010(a) is amended by adding a new paragraph to read:

22 (6) Alaska Renewable Resources Corporation (AS 37.12.030) --
23 June 30, 1982.
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Figure 1 - PROJECTED STATE REVENUES



Dark Spinning

RP9S = TOTAL DIRECT PETROLEUM REVENUES

R99S = TOTAL STATE REVENUES

Handwritten notes and arrows at the bottom of the graph.

OPERATING EXPENDITURE ANALYSIS

Real per Capita income

Year	Total Operating Expenditures 1 (Million \$)	Population 2 (Thousand)	Expendi. per Capita 3 (\$)	Anchorage Consumer Price Index 4 (1967=100)	Real Expendi. per Capita 5 (1967 \$)	Real Personal Income (Million 6 1967 \$)	Real Personal Income Per Capita 7 (\$)	Ex/Income Real Per Capita 8 (%)
1960	36.6	226.2	162	-	-	-	-	-
1961	51.4	236.7	217	92.3	235	705.6	2981	8
1962	63.2	242.8	260	92.5	281	734.2	3024	9
1963	80.3	249.9	321	93.1	345	762.9	3053	11
1964	82.1	253.2	324	93.4	347	853.8	3372	10
1965	88.4	265.2	333	94.2	354	917.3	3459	10
1966	100.5	271.5	370	97.9	378	954.3	3515	11
1967	113.6	277.9	409	100.0	409	1042.2	3750	11
1968	129.3	284.9	454	102.6	443	1097.8	3853	11
1969	152.1	294.6	516	105.9	487	1195.4	4058	12
1970	199	302.4	658	109.6	600	1316.3	4253	14
1971	315.8	312.9	1009	112.9	894	1395.2	4459	20
1972	366.5	324.8	1128	115.9	973	1500.5	4620	21
1973	421.8	330.6	1276	120.0	1063	1670.0	5051	21
1974	482.3	351.2	1373	133.9	1025	1793.9	5108	20
1975	597.6	404.6	1477	152.3	970	2182.5	5394	18
1976	778.9	413.3	1885	164.1	1149	2321.8	5618	20
1977 est.	892.6	-	-	-	-	-	-	-
Rate of Increase 1961-76:	19.87	3.79	15.5	3.91	11.16	8.26	4.32	-

1. Table A.2
2. MAP model thru 1974 then State of Alaska estimates 1960 from U. S. Census.
3. Column 2/Column 1
4. U. S. Dept. of Labor, Bureau of Labor Statistics.
5. Column 3/Column 4
6. Personal income taken from U. S. Department of Commerce, Bureau of Economic Analysis, deflated by Anchorage consumer price index
7. MAP model.
8. Column 5/Column 7.
9. U. S. Dept. of Commerce, Bureau of Economic Analysis.

Figure 2 PROJECTED STATE EXPENDITURES

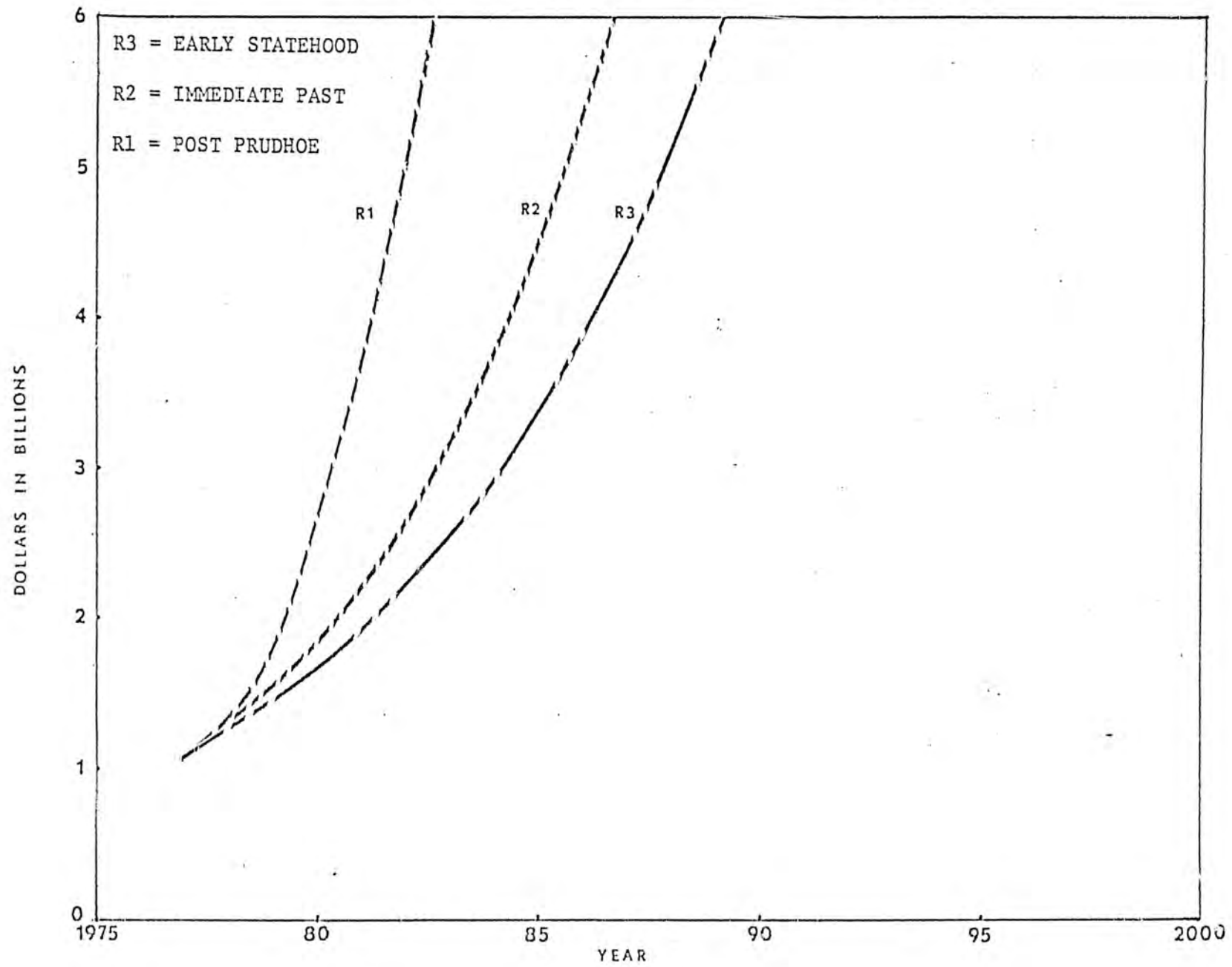
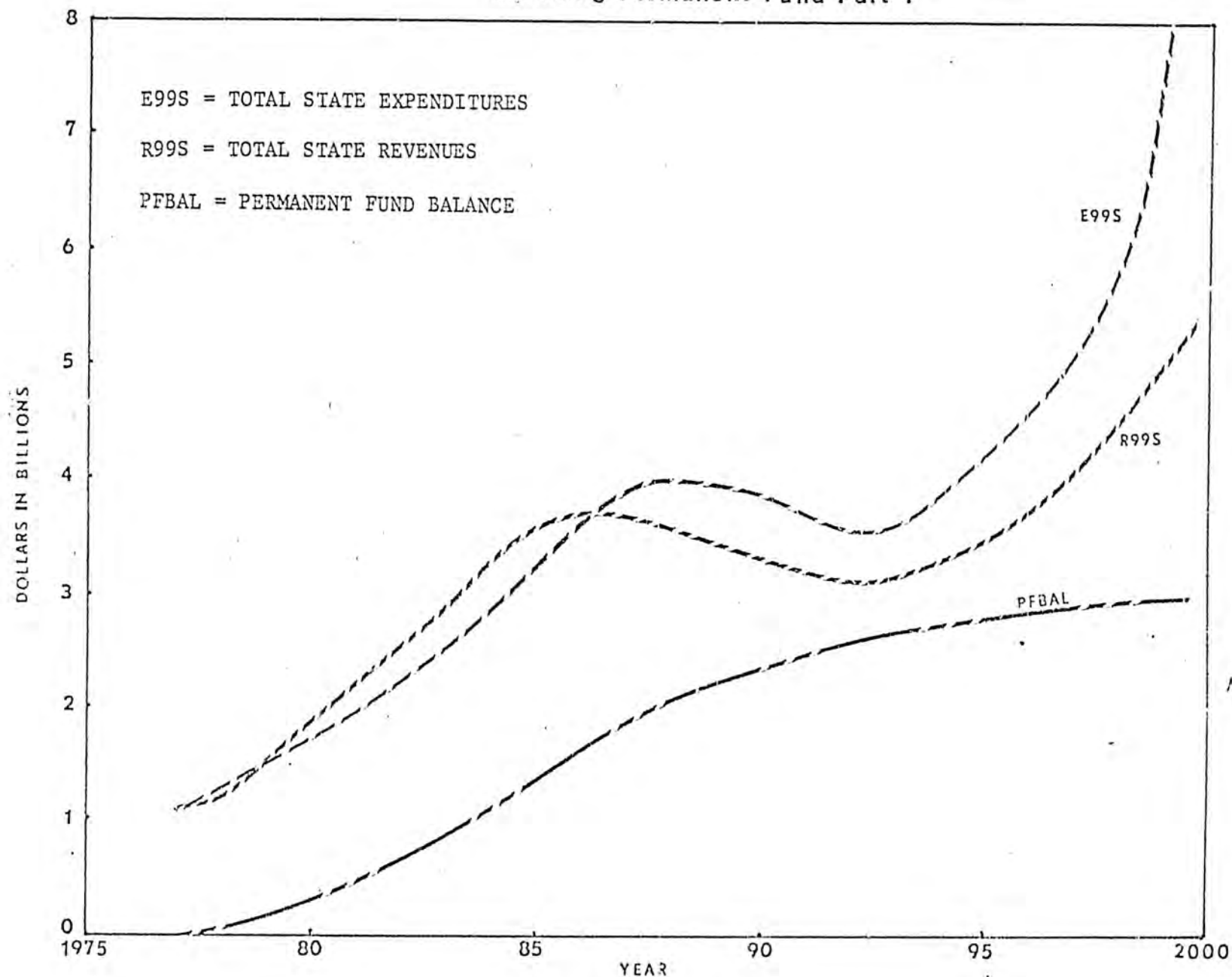


Figure 3 - SIMULATED STATE FISCAL POSITION
including Permanent Fund Part I



No adjustment
concerns

Figure 4 - SIMULATED STATE FISCAL POSITION
including Permanent Fund Part II

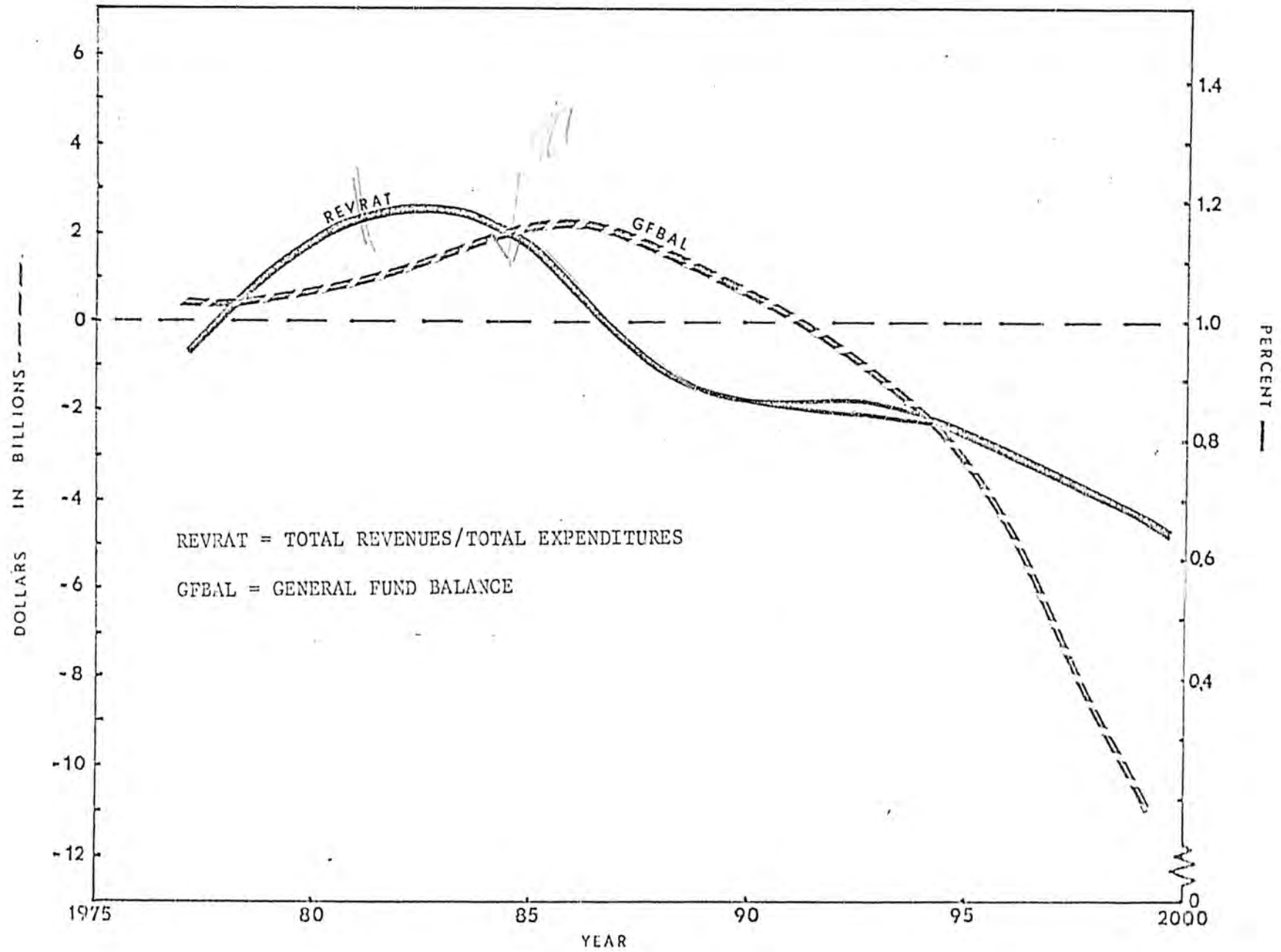


Figure 5 - SELECTED MEASURES OF THE PERMANENT FUND

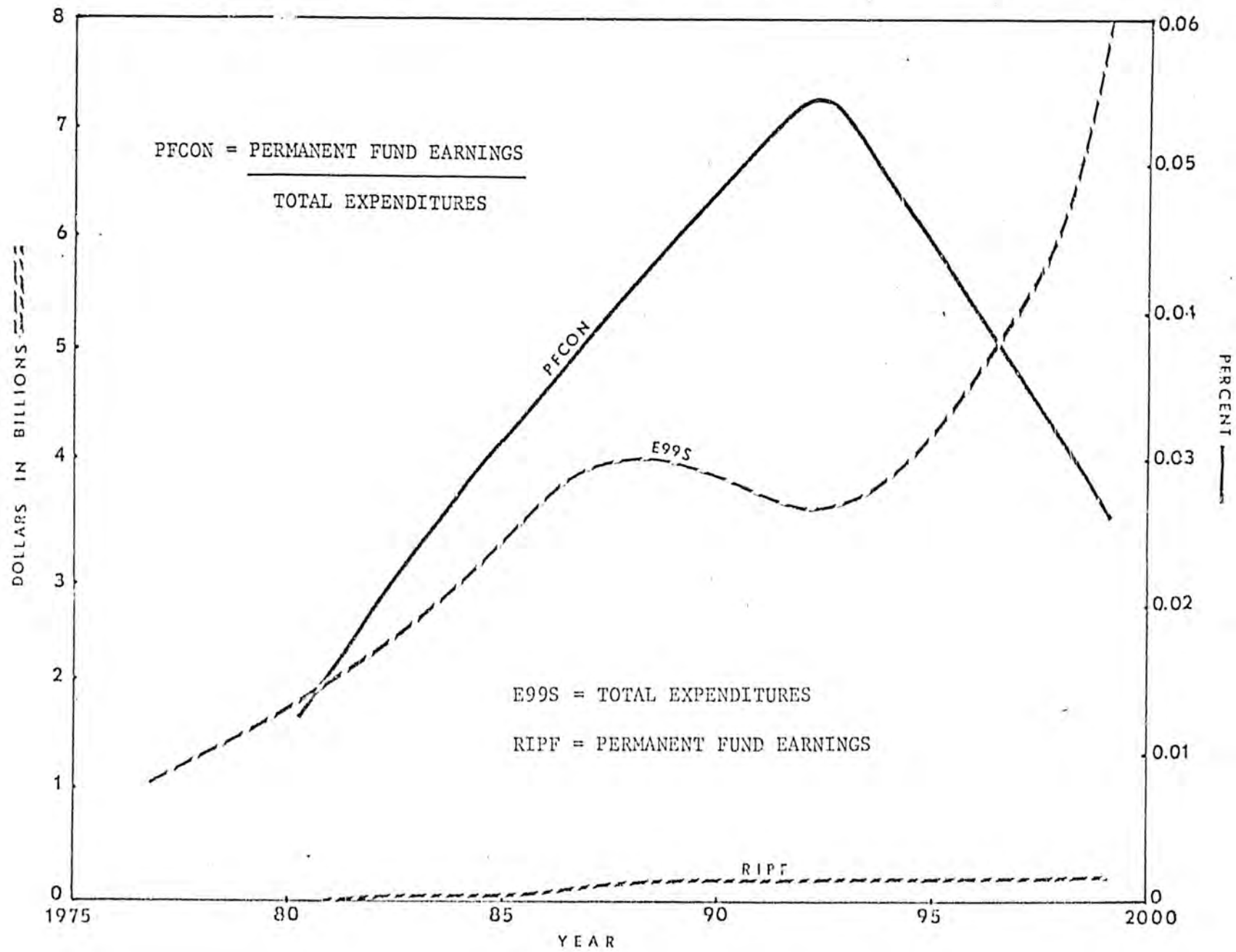


Figure 6 - SELECTED MEASURES OF THE PERMANENT FUND
PART II

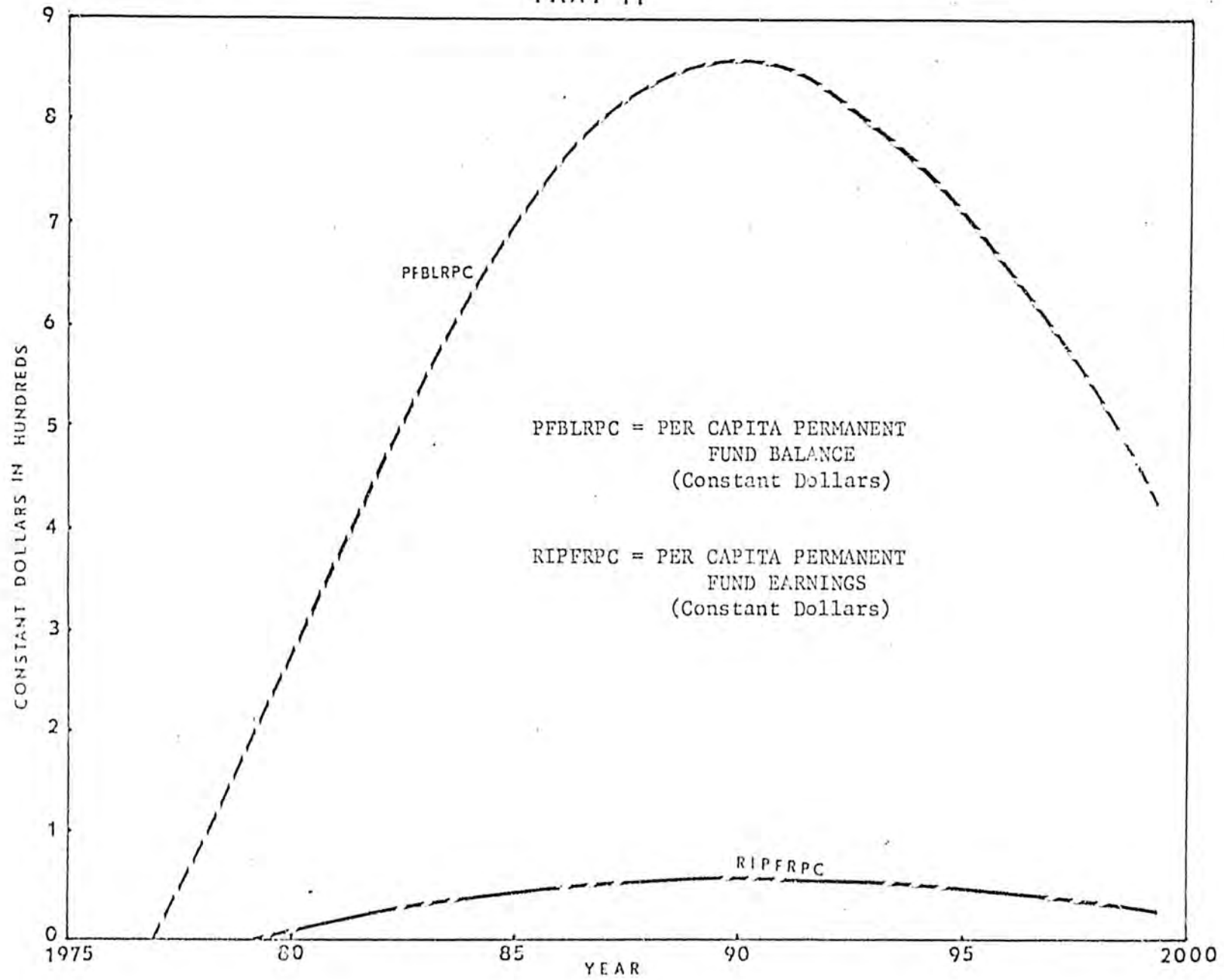


Figure 7 - SELECTED MEASURES OF THE PERMANENT FUND
PART III

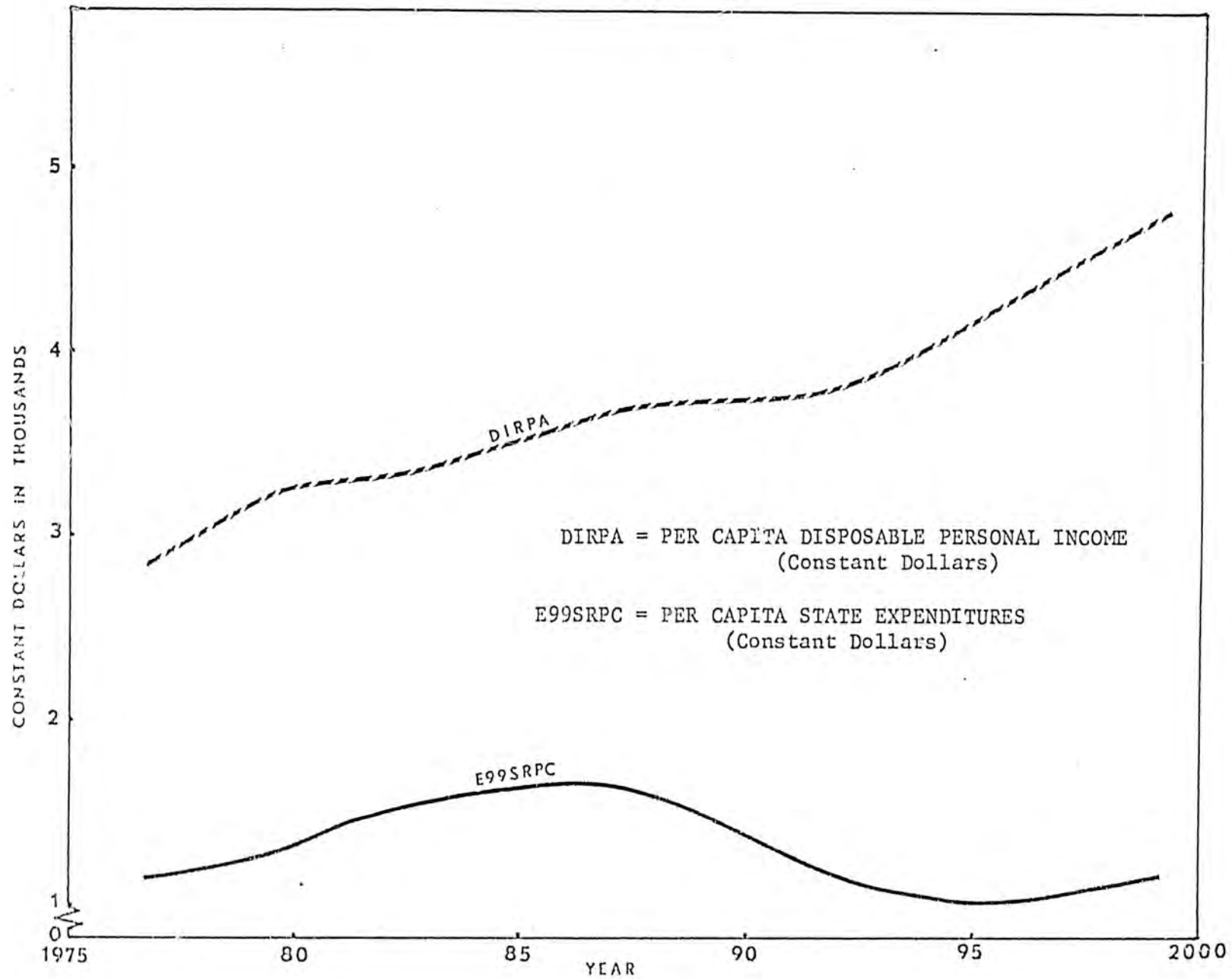


Figure 8 - POSITION OF STATE ASSUMING 25% INCREASE
IN PETROLEUM REVENUES

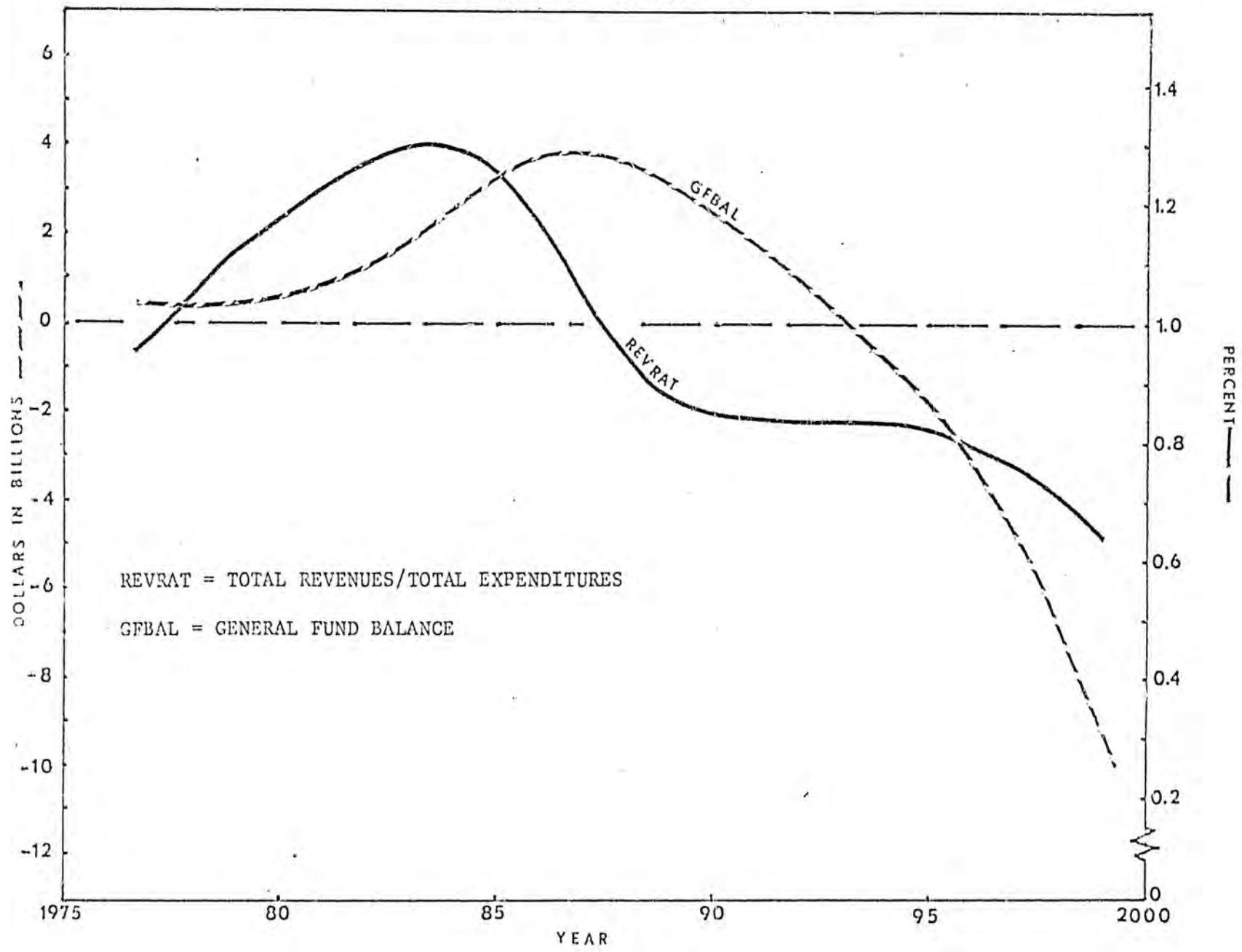


Figure 9 - FISCAL POSITION OF STATE ASSUMING 100% CONTRIBUTION RATE PERMANENT FUND

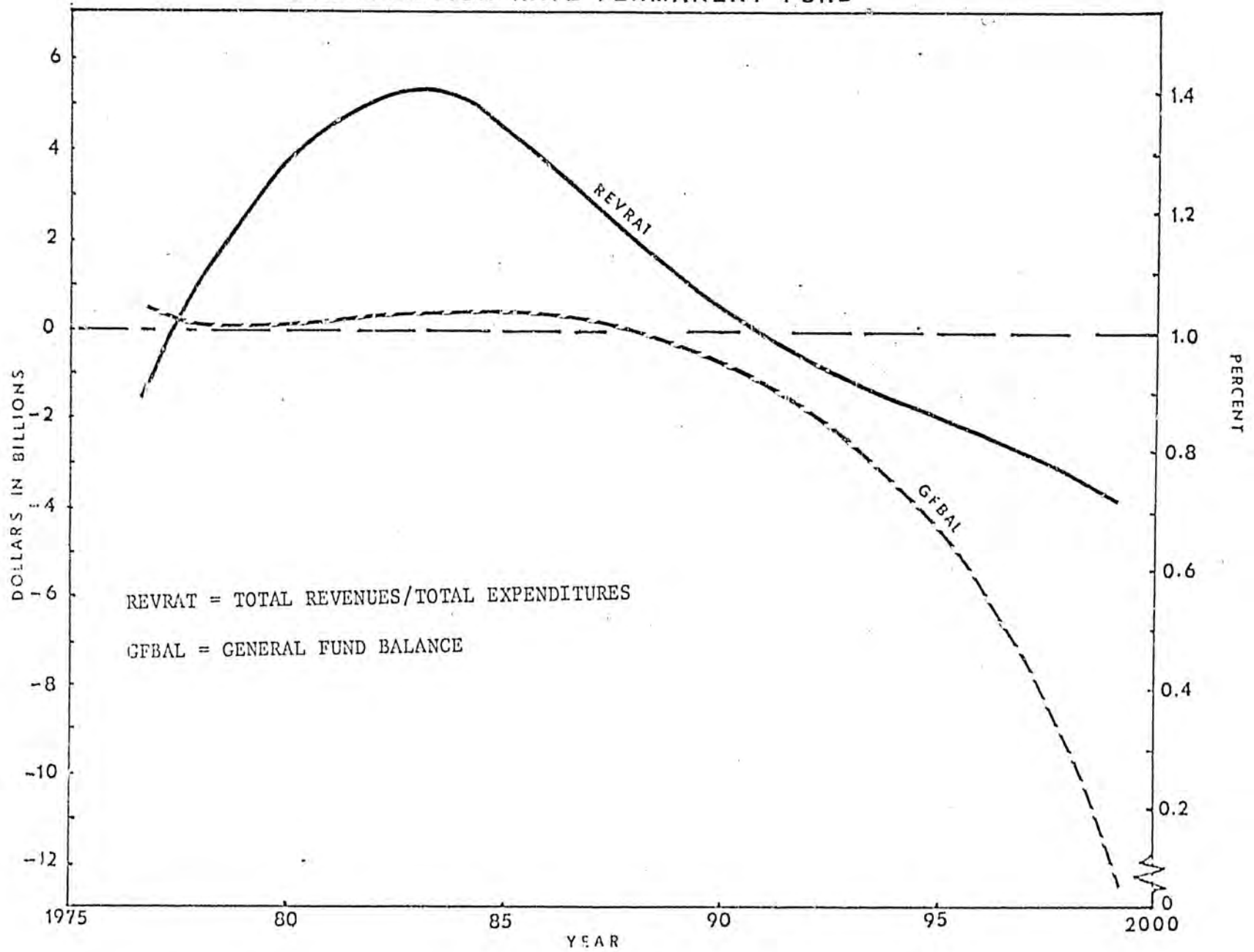


Figure 10 - IMPACT OF PERMANENT FUND WITHDRAWALS ON ECONOMIC GROWTH

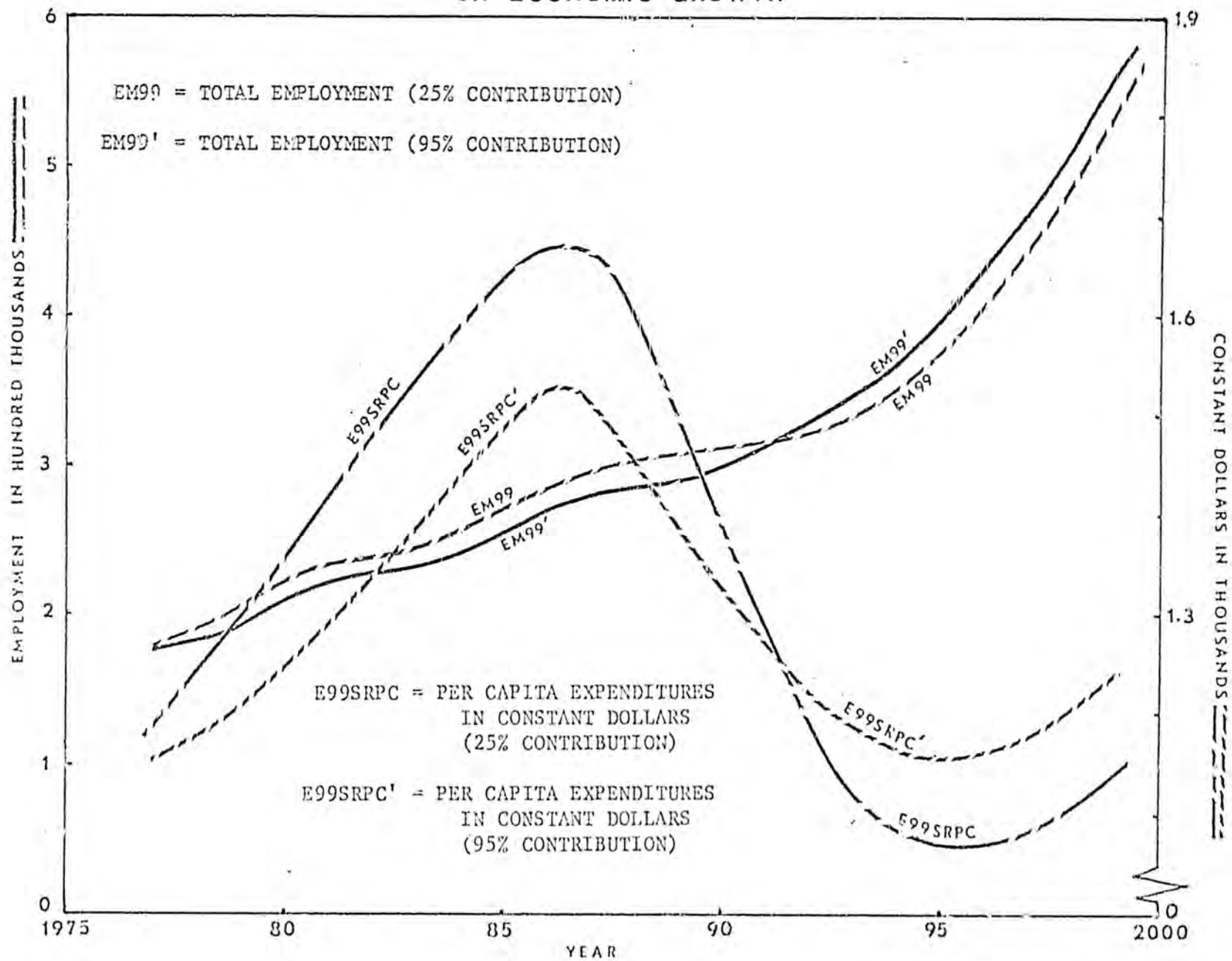


Figure 10.A - RELATIONSHIP OF PERMANENT FUND AND SUPPLEMENTAL FUND

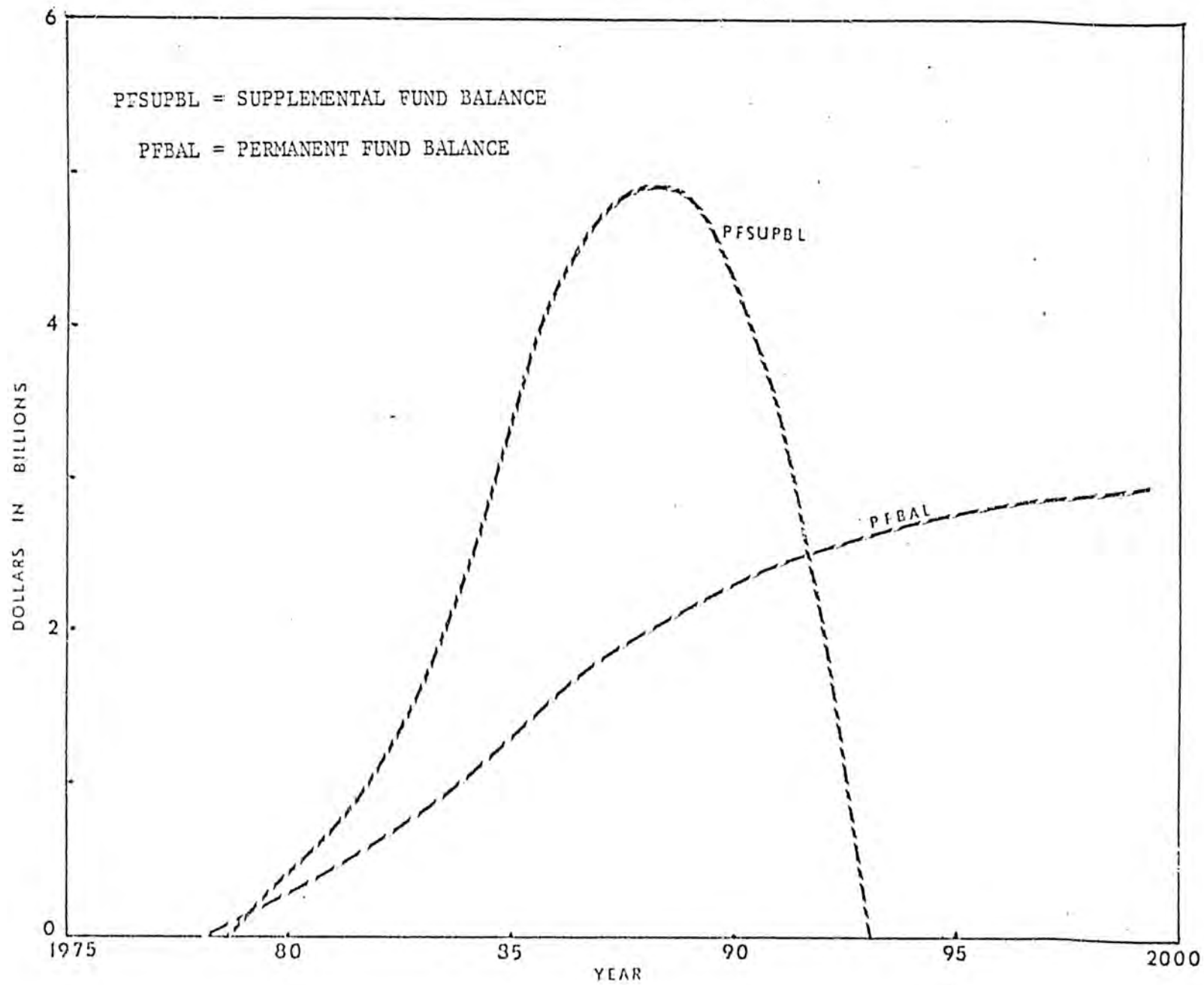


Figure 11 - POSSIBLE TARGET EXPENDITURE GROWTH RATE

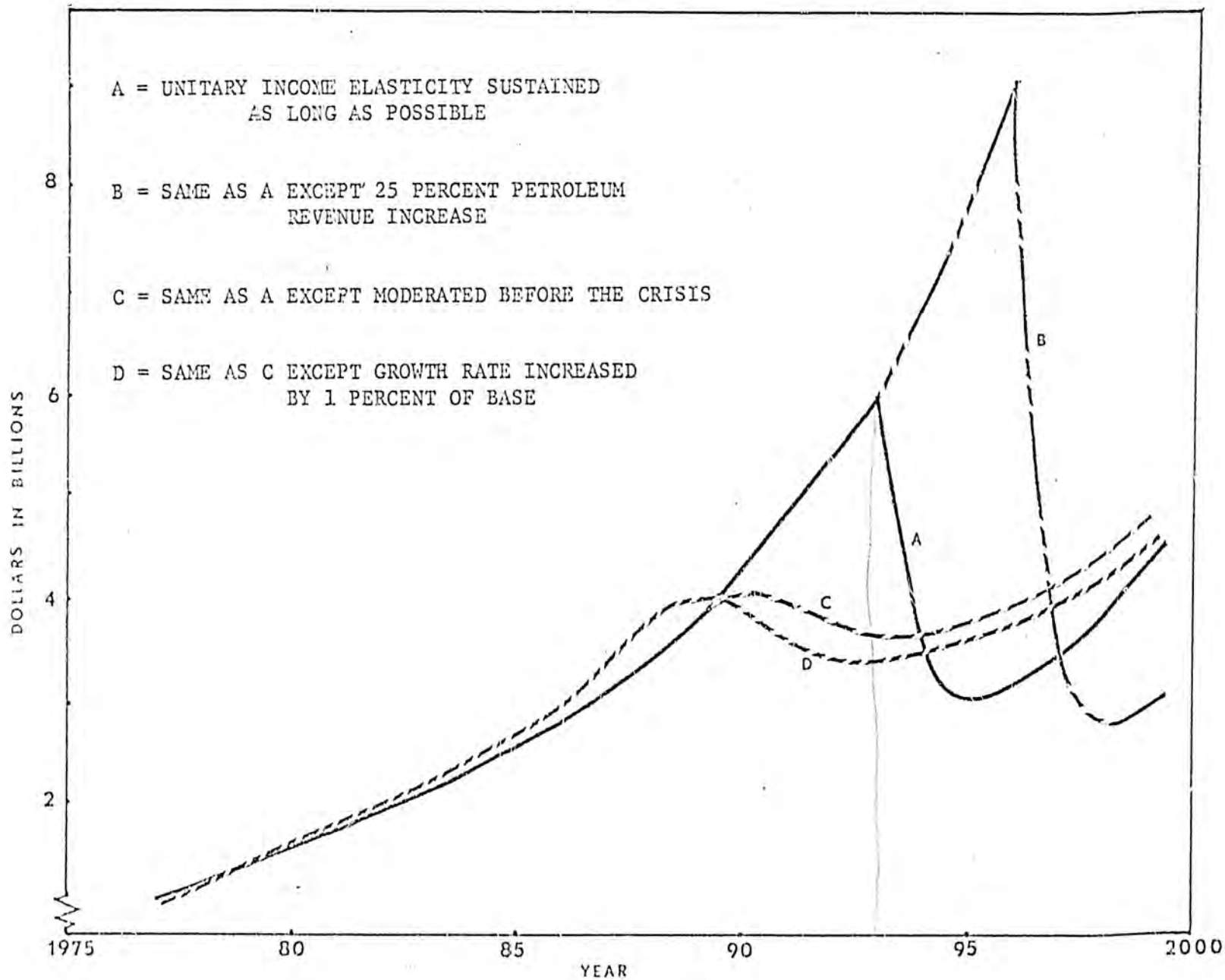
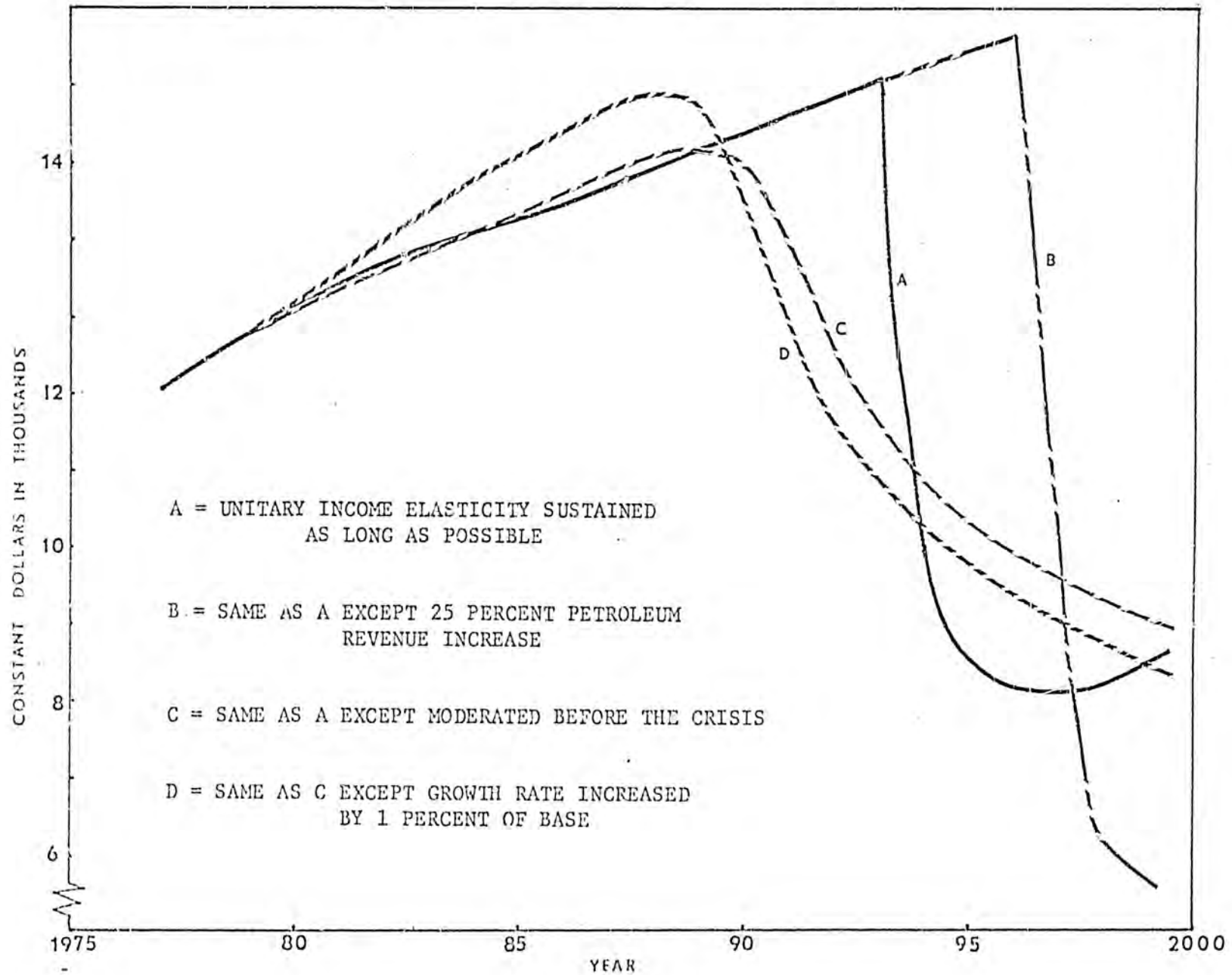


Figure 12 - LEVELS OF PER CAPITA STATE EXPENDITURES
IMPLIED BY TARGET GROWTH PATHS



M E M O R A N D U M

TO: Clark Gruening, Chairman, House Permanent Fund Committee
FROM: Lee Gorsuch, Director, Institute of Social and Economic
Research, University of Alaska

SUBJECT: Alaska Native Regional Corporations and the
Permanent Fund

In late July, we agreed to include several questions related to the Permanent Fund in the study of regional corporations we are conducting in collaboration with the Alaska Native Foundation. The questions included were designed to (1) ascertain Native Regional Corporation views of potential Permanent Fund investment needs and of possible opportunities in rural areas, and (2) explore potential areas of cooperation between the Permanent Fund and Native corporation investments.

We have made no material changes in the responses we received, nor have we analyzed them. The responses constitute the views of selected executives of six of the twelve Native Regional Corporations. This memorandum summarizes the responses we obtained which included specific ideas and examples of investment opportunities and perceptions of the broader Permanent Fund policy issues.

While our overall study covers all Native Regional Corporations, we were only able to address the Permanent Fund related questions to six of them. This is due primarily to our survey

*Need more
foundation
for admin. info
conclusions
of this study into
the final PE report*

having already been completed in a number of regions prior to the add on of the Permanent Fund related questions in late July.

General Investment Policies and Goals

Respondents were asked for their opinions as to what Permanent Fund investment policies and goals should be in general and how they should apply to rural areas, in particular.

All respondents supported the concept of the Permanent Fund and generally regarded it to be of great potential value in meeting rural area needs.

Some Specific Comments

- The Fund should be used primarily to ensure that there is sound and steady growth in the economy of the state. Don't want rapid growth booms and busts...use the Fund to help stabilize the economy... help knock out the valleys and knock off the peaks on the economic growth of the state.
- The Permanent Fund should not be used to any great extent to subsidize something that cannot naturally occur or at least stand on its own after a brief period of time...don't like the idea of subsidized business, but could use the Fund to help get things going and then get out; that sort of thing.
- Remove from political spectrum.

- Can't differentiate between urban and rural areas and projects. Need to look at each individual investment...the availability of other funding in urban areas and lack of it in rural areas, will soon take the Permanent Fund to rural areas and small communities.
- Rates of profit are not commensurate with the risks that exist in rural areas...if the Permanent Fund has a goal of doing something for rural Alaska, it is going to have to accept something other than the maximum return. But this may be justified by reducing other costs or enhancing other returns to the public than directly in terms of Permanent Fund growth...rates of return can take into account broader values through shadow pricing.

Relationship Between Permanent Fund and Regional Corporations

All respondents expressed an interest in having Permanent Fund monies available to regional corporations in support of their in-state investments.

There was consensus that the Permanent Fund should be a source of funding, and perform a role comparable to that of a bank. It should provide funding on the basis of proposals and appropriate collateral, similar to EDA, FHA, state loan programs, etc.

While emphasis was on loan programs, the possibility of joint ventures were also envisaged. According to our respondents, under such circumstances the Permanent Fund should provide money only, not management. It would, in effect, become a limited partner with the applicant corporation functioning as the general partner. The respondents fully accepted the accountability associated with the partnership arrangement so long as the state was not directly involved in management of a particular enterprise.

Interest was also expressed in intermediate-term financing. Commercial banks generally finance projects on a 5-7 year term, maximum, and insurance companies lend for a period of 20-30 years. The respondents felt a void exists in the availability of 8-20 year money.

Respondents also emphasized the need to make money available expeditiously, without too much red tape and delay. (It was suggested that sometimes the real cost of "cheap" money (e.g., 5%) turned out to be about 20%.)

One respondent saw no reason to support Native corporations by virtue of their being Native corporations or just to put money into the bush. This respondent suggested that the Permanent Fund participate only when a beneficial investment can be shown. At the same time, this respondent felt that there were many opportunities for "beneficial investments" in rural areas and with Native corporations.

Financing Corporation Investments

An attempt was made to elicit specific examples of situations where the Permanent Fund could assist, or could in the past have assisted, with the financing of regional corporation projects:

- The Harbor View apartment complex in Kodiak is at this time financed by a credit union (50%) and by Koniag Corporation (50%). The project meets local needs, creates jobs - and is carrying itself. No commercial institution would touch the project initially, and public funds would have helped. Even today, Permanent Fund participation in the project's financing could free Koniag equity and enable Koniag to initiate other projects. As Mortgagor, the Permanent Fund's investment would be secured by a profitable real estate project.
- Similarly, Ahtna Lodge at Glenallen has a very high regional corporation equity. Additional financing was provided under the State Tourism Loan Program, by a private bank, and by CEDC. Refinancing of Ahtna's equity would also free its capital for further investments. If the interest rates of the new capital provided by the Permanent Fund were lower than current ones, profitability could be achieved earlier even with a higher level debt.

- Cook Inlet has several high yield projects, including office buildings and hotels, where conversion of equity into a loan, consolidation of existing debt and refinancing of existing medium-term notes could all have a very favorable economic impact on the corporation.
- Most of respondents regarded fisheries to be one economic activity in which Permanent Fund loans or guarantees could have made investments possible in the past and could still facilitate projects presently and in the future. In each case, capital requirements were viewed as having been or being too large to be borne solely by the regional corporations. Among the investment possibilities cited were a major high seas processing ship; boats and on-shore plants; and a large enterprise involved in harvesting, processing, and sales of sea foods.

Areas of Perspective Investment

Fisheries and mineral resources development and processing were mentioned over and over again as prime candidates for future Permanent Fund support in the various regions.

As might be expected, the principal emphasis in fisheries was on high seas and on-shore facilities related to taking full advantage of the extended (200 mile) fisheries jurisdiction in

the waters adjacent to Alaska. Great opportunities are seen for large-scale protein development, but concern exists about obtaining initial financing for what, in effect, will constitute a new approach to fisheries in the United States. Financing is seen as being required for large fleets, on-shore installations, transportation and marketing, research--in other words, everything to initiate broad utilization of off-shore fisheries.

A number of regions currently have mineral contracts with options to participate in production if exploration finds economically feasible resource deposits. Exercising such options will mean that regional corporations will have to pay a share of future costs. While under such circumstances private financing of what would likely be large capital requirements could probably be arranged, respondents felt the Permanent Fund could earn a high yield by financing such ventures...specific opportunities suggested for Permanent Fund involvement in the minerals area were the development and industrialization of the Beluga Coal Fields and the establishment of a cement manufacturing plant. Aside from these specific areas, others were mentioned but only in general terms. These included geothermal energy development, housing and investment guarantees, and OCS-related projects.

Other Comments and Suggestions

Human resources development was stressed by a number of respondents. While they pointed to job creation as a major goal

for rural areas, another respondent saw this factor pertinent only as a consideration if judging between two projects of equal merit, believing that most investments in Alaska would assist with local employment.

One respondent saw the lack of people with interest, attitudes, and skills appropriate to business and financial management as the greatest obstacle to development in rural Alaska.

A suggestion was made that the Permanent Fund could facilitate a sort of one-stop-financing service. The idea came up in connection with a discussion of constraints facing small business, where money may be available but is not getting to where it should or could be. Many existing financial institutions simply do not service rural areas. A servicing facility or process sponsored in connection with the Permanent Fund could actually facilitate the availability of commercial financing and of other funding sources such as EDA, SBA, BIA, and others.

The hope was also expressed that the Permanent Fund would encourage a greater understanding of rural investment opportunities and investment environment. It was pointed out that most of the demand studies and many feasibility studies done for rural areas are based upon urban notions of yield and, therefore, often greatly understate risks and misinterpret the return opportunities. Even the most skilled appraisers are not sufficiently qualified

to deal with rural areas to make appropriate judgements. If the Permanent Fund is to obtain good feasibility studies, our respondents felt it will need to develop its own capability to analyze economic and business opportunities, or sponsor somebody else in development of the appropriate analytic capability as does the World Bank and other international lending institutions.

In conclusion, I want to emphasize that ISER has not analyzed or endorsed the suggestions offered above, nor should they be interpreted to be an official position of the Alaska Native Regional Corporations, but rather the views of several executive officers of the corporations.

by: SY

TABLE 2

<u>Year</u>	<u>Anchorage Consumer Price Index October 1967=100.0</u>	<u>Alaska Population¹</u>	<u>Appropriations Act General Fund (\$ millions)²</u>	<u>Per Capita General Fund Appropriations Act in Constant Dollars \$</u>
1960	92.0	226,167	39.8	191
1961	92.9	238,000	46.3	209
1962	92.6	246,000	62.1	273
1963	93.3	256,000	76.7	321
1964	93.9	263,000	67.9	275
1965	94.2	271,000	84.7	332
1966	97.9	271,000	93.8	354
1967	100.0	278,000	103.8	373
1968	102.6	285,000	124.1	424
1969	107.3	296,000	154.1	485
1970	111.5	302,361	314.1	932
1971	114.4	312,930	292.1	816
1972	116.9	324,281	330.4	872
1973	123.8	330,365	353.0	863
1974	140.0	351,159	457.0	930
1975	157.4	404,634	553.6	869
1976	167.6	413,289	679.2	980
1977	177.3	398,000	797.8	1130

1. 1960 and 1970 figures based on April 1st census; 1961-1969 figures refer to estimated July 1st population contained in U. S. Bureau of the Census, Current Population Reports, Series P-25, No. 460, June, 1971; 1971-1977 figures refer to July 1st population estimates of the Alaska Department of Labor, Research & Analysis Section.
2. The figures are for the fiscal year following the listed calendar year, e.g. in 1960 the fiscal year 1961 appropriations act of \$39.8 million in general funds was signed into law.

TABLE 1
ANNUAL COMPOUND PERCENTAGE GROWTH

<u>Period</u>	<u>Anchorage Consumer Price Index</u>	<u>Alaska Pop.</u>	<u>Appropriations Act General Fund</u>	<u>Per Capita General Fund Appropriations Act in Constant Dollars</u>
1960-1977	3.93%	3.38%	19.29%	11.02%
1960-1969	1.72	3.03	16.23	10.91
1969-1977	6.48	3.77	22.82	11.15
1970-1977	6.85	4.00	14.24	2.79
"normalized" 1970-1977	6.85	4.00	19.14	7.21

TABLE 3
INFLATION RATE IN CONSUMER PRICE INDEX

<u>YEAR</u>	<u>ANCHORAGE</u>	<u>U.S.</u>	<u>DIFFERENCE</u>
1961	.96%	2.28%	-1.30%
1962	-.32	1.34	-1.66
1963	.76	1.10	-.34
1964	.65	1.20	-.55
1965	.32	1.61	-1.29
1966	3.93*	3.91	.02
1967	2.15	2.64	-.49
1968	2.60	4.55	-1.95
1969	4.58	5.59	-1.01
1970	3.92	5.83	-1.91
1971	2.60	3.81	-1.21
1972	2.19	3.27	-1.08
1973	5.91	7.90	-1.99
1974	13.09*	12.01	1.08
1975	12.43*	7.59	4.84
1976	6.48*	5.29	1.19
1977	5.79	6.47	-.68

*Anchorage rate greater than U.S. for these years.

TABLE 5.
Alaska's Population Growth Compared with Total
United States, Far West and Mountain States

Year	Alaska	Far West ^a	Mountain ^b	United States ^c
1880 (June 1)	33,426	1,176,844	430,848	50,155,783
1890 (June 1)	32,052	1,935,689	918,055	62,947,714
1900 (June 1)	63,592	2,459,027	1,314,081	75,994,575
1910 (Apr. 15)	61,356	4,274,179	2,019,987	91,972,266
1920 (Jan. 1)	55,036	5,644,278	2,564,182	105,710,620
1930 (Apr. 1) ^d	59,278	8,285,491	2,751,841	122,775,046
1940 (Apr. 1) ^d	72,524	9,733,262	3,008,677	131,669,275
1950 (Apr. 1)	128,643	14,646,610	3,484,141	150,697,361
1960 (Apr. 1)	226,167	22,624,000	4,317,000	178,464,236
1970 (Apr. 1)	302,647	25,915,000	5,005,000	203,185,000

NOTES:

^aFar West includes the states of Washington, Oregon, California and Nevada.

^bMountain includes Montana, Idaho, Wyoming, Utah and Colorado.

^cUntil 1970, population figures were for Continental United States, excluding Alaska and Hawaii.

^dThe census dates in Alaska were Oct. 1, 1929 and Oct. 1, 1939.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957*, (Washington: U.S. Government Printing Office, 1960), Series A 17-21 and Series A 1230180; U.S. Department of Commerce, Bureau of the Census, *Statistical Abstracts of the United States, 1961*, (Washington: U.S. Government Printing Office, 1961) pp. 5, 12 and 13; and U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-25, No. 469, June, 1971.

TABLE 6.
Decennial Rates of Population Change -- Alaska, Far West,
Mountain States and Total United States
1880-1970

Decennial Period	Alaska	Far West	Mountain	United States
1880-1890	-4.1	64.5	113.1	25.5
1890-1900	98.4	27.0	43.1	20.7
1900-1910	1.2	73.8	53.7	21.0
1910-1920	-14.5	32.1	26.9	14.9
1920-1930 ^a	7.7	46.8	7.3	16.1
1930-1940 ^a	22.3	18.8	9.3	7.2
1940-1950	77.4	48.8	15.8	14.5
1950-1960	75.8	55.5	23.9	18.4
1960-1970	33.8	14.7	15.9	13.8

NOTE:

^aFor Alaska, as of Oct. 1, 1929 and Oct. 1, 1939.

SOURCE: Calculated from data in the first part of Table 2.

HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

December 12 and 13, 1977

AGENDA

1. Report, Institute of Social and Economic Research
2. Discussion, Permanent Fund draft legislation
3. Discussion, Renewable Resources Development Fund draft

MEMORANDUM

TO: Clark Gruening, Chairman, House Special Committee on the Alaska
Permanent Fund

FROM: The Institute of Social and Economic Research

SUBJECT: Alternative Approaches to Calculating Contributions to the
Permanent Fund

November 18, 1977

Introduction: As part of ISER's contract with the committee to analyze the economic impacts of alternative investments and policies of the Permanent Fund, ISER is also to address the issue of how the legislature might go about determining the level of contributions to be made to the Permanent Fund beyond those constitutionally mandated.

As previous analyses of investments and expenditures using ISER's econometric models have already suggested, the determination of an appropriate pattern of state expenditures involves considerations far broader in scope than simply the provision of public services to satisfy the demands of a stationary population. Because state government plays a central role in determining the overall level of economic activity in the state, via direct employment and expenditures in other sectors of the Alaska economy, savings/expenditure choices confronting the Alaska Legislature are most appropriately considered within the context of the impact of alternative choices on the growth of employment, population and incomes in the state and on the ability of the state to sustain such growth in the long run. These considerations are of particular importance given that much of any expenditure growth is to be financed from revenues derived from depletable resources.

Two alternative approaches might be suggested in approaching the savings/expenditure choice. At the one extreme, one might adopt simple savings formulas, or rules, to minimize policy discretion over expenditure choices. At the other extreme, one might adopt a fully discretionary expenditure policy in which decisions on savings and expenditures are based solely on considerations of current economic conditions. Neither extreme is likely to be wholly adequate in serving both the goal of satisfying local demands for services by the existing state population and the long run growth goals of the state.

In order to satisfy the demands of the local population for public services, some simple formula approach might be deemed appropriate. However, to take into account the growth effects of state policy, some more elaborate, and more flexible, formulations would be required. This memo is intended to present some preliminary, simple formula approaches, as well as the limitations of such approaches. It also discusses the types of considerations which are relevant to the development of appropriate expenditure rules and which adequately capture the growth effects of any state savings/expenditure choice.

The following memorandum identifies these important variables and discusses how they are related to one another. These relationships can become quite complex and, when expressed in mathematical terms, confusing to the non-economist. For the purposes of this paper, we have attempted to minimize the use of professional jargon and mathematics and have focused on the basic principles of a formula approach.

Background: There are a variety of possible formulas to govern contributions of state revenues to the Permanent Fund. The simplest is, of course, a fixed percentage of state petroleum leasing revenues. Such a formula would build up the balance in the Permanent Fund at a relatively predictable rate, but it would ignore current as well as future state budget needs. A constant percent contribution, for example, could leave large balances accumulating in the general fund over the next several years; but it could also, within a decade, begin to cause substantial general fund deficits in succeeding years.

Another formula, although more complicated, could be constructed with the objective of stipulating that Permanent Fund earnings provide a specified percentage of state revenues by a certain date. If, for example, the goal of the Permanent Fund was to provide 25 percent of the state's revenue needs in perpetuity by the year 2000, the purpose of the formula would be to determine the annual contributions to the Permanent Fund required to accomplish this goal.

A third and similarly complex alternative formula could be devised with the objective of providing for a smooth, orderly growth of money available in the general fund in order to meet the operating needs of state government for the longest possible period. And a fourth alternative formula could conceivably be designed whose purpose was "countercyclical," that is, encouraging reduced general fund spending in boom times and increased spending during recessions in the state's economy.

Revenues contributed to the Permanent Fund under any kind of formula are kept outside the normal budgetary process in that they are not available for normal state expenditures. Thus, it follows that the larger the contributions to the Permanent Fund in any year, the less general fund revenues available for expenditures and vice versa. To the extent that the legislature limits each year's appropriation to the revenues available that year to the general fund, the Permanent Fund contribution becomes the key policy variable controlling spending from the general fund. Indeed, because state spending is a major factor in the state economy, Permanent Fund contributions must also be viewed a key policy variable affecting the state's economic growth and population.

An Illustrative Formula: Although ISER is now modeling the impact of such alternative formulas on the state budget and the Alaskan economy, for the purpose of illustrating the use of such formulas, the present memo concentrates on the third type of formula, that is, one which would allow a smooth and orderly growth of general fund spending by putting all revenues in excess of the projected current needs of state government into the Permanent Fund.

A smooth, orderly growth of state expenditures is one which reflects the normal growth of demand by Alaskan residents for the services of state government, the income transfers, such as payments under the public assistance program, and the expenditures of local government, to the extent these later two are supported by general fund expenditures. In absolute dollar terms, this demand for state expenditures will tend to grow in response to three factors: 1) growth of the Alaska population; 2) inflation; and, 3) growth of real income per capita.

Any formula governing Permanent Fund contributions which is intended to allow a smooth and orderly growth in the money available in the general fund will have to reflect these three factors as well as unanticipated new ones such as a significant disaster. If contributions to the Permanent Fund allow general fund surpluses to grow, the legislature will come under pressure to spend them. Conversely, if the formula does not leave money in the general fund sufficient to keep up with the demand in state services, the legislature will soon be compelled to "break" the formula.

It is not difficult in principle to come up with a formula to estimate the money needed in the general fund in a given fiscal year. One plausible formula for a target rate of growth in state spending would be one which formulates that the rate of growth of state expenditures (rEX) will be equal to the rate of growth in the population (rPOP) plus the rate of growth in prices (rPRICE) plus the rate of growth of personal income per capita (rYPC). Expressed mathematically, the formula would be the following:

$$rEX = rPOP + rPRICE + rYPC$$

According to the formula, a 5 percent increase in state population or a 5 percent increase in the price level or a 5 percent increase in real personal income would each require a 5 percent increase in general fund appropriations if the existing quantity and quality of state services were to be maintained. Correspondingly, if all three variables increased 5 percent, general fund appropriations would have to be increased 15 percent to provide commensurate services.

Experience over many years in other states indicates that citizens are not satisfied with a constant quantity and quality of state services. Rather, as time passed and real incomes increased, citizens expected more and better services from state government and demanded higher levels of real spending per capita. In other words, the demand for state services rose disproportionate to rise in real per capita income. This disproportionate demand for services as incomes rise is captured by the concept of the "income elasticity of demand" for state spending and can be mathematically expressed by the symbol e .¹ Modifying the above formula to allow for the "income elasticity of demand," it becomes: $rEX = rPOP + rPRICE + rYPC(e)$.

¹The income elasticity of demand is defined as the percentage rise in demand for services per one percent rise in real per capita income.

Thus, if the "income elasticity of demand" is estimated to be 1.2, a 5 percent rise in real personal income would result in a 6 percent increase in state spending per capita. ISER is presently investigating state expenditure data from other states in an effort to determine a reasonable income elasticity value for Alaska and will incorporate the value in its quantitative analyses.

None of the three factors determining the target rate of state spending does, in fact, move at a constant rate from year to year, and a target based on average growth rate established in previous years is likely to be "too high" in some years and "too low" in others. This need not be fatal, however, because the impact of population growth, inflation and higher citizen expectations tend to determine state expenditure patterns only over the long run and with some lag in any case. The kind of formula suggested here is, moreover, self-correcting to a large extent because any base expenditure figure selected (EX (t-2)) and the three commensurate growth rates can and would be continually updated as more recent information becomes available.

Conceivably, the legislature could find that the target figures are consistently too high or too low for several years running and that a persistent deficit or surplus was being built up in the general fund. For this reason, legislation establishing a formula might provide for redetermination of parameter e in the formula at periodic intervals--for example, every five years.

The preceding formulas establish only the target expenditures for each fiscal year. They do not by themselves establish the amount of the fiscal year surplus or deficit or the proportion of the surplus to be deposited in the Permanent Fund. To determine the size of the current fiscal year's surplus or deficit, we need to know what total state revenues will be, for both petroleum and non-petroleum sources. If the Permanent Fund contribution is to be determined in advance of the legislative budgeting process, it will be necessary to establish a definitive projection of state revenue and subtract from that projection the expenditure target for state spending. This approach adds another potential source of error to calculation (the revenue projection) and increases the risk that the formula approach would not in fact limit current spending sufficiently or, alternatively, would create irresistible pressures upon the legislature to "break" a formula they felt was intolerably restrictive.

A more workable approach might be to provide that all revenues, except the constitutionally mandated 25 percent of non-recurring mineral revenues that must be contributed to the Permanent Fund, accrue to the general fund up to the point at which general fund revenues equal fiscal year spending target. Once that level has been reached, all revenues from whatever source would be contributed to the Permanent Fund or to a contingent general fund reserve which could be called upon when a given year's target expenditures exceed the revenue remaining in the general fund after the mandatory contributions to the Permanent Fund and the other contingent

liabilities have been made. Under this approach, the legislature would not know in advance exactly how much money would be available in the general fund nor how much the Permanent Fund would be enhanced during the year. In its deliberations on the budget, both of these items would have to be estimated, and miscalculation for unforeseen developments would result in unexpected general fund deficits or surpluses which would carry over to later years. But, of course, that is exactly the situation that exists today.

Using a formula approach to Permanent Fund contributions, we would expect these contributions to be considerably more than half of petroleum revenues the state will receive over the next few years. Absent major new oil and gas discoveries on the state land or very large increases in real energy prices, the proportion to be contributed to the Permanent Fund could be expected to fall to a level below 25 percent by the mid-1990s. Eventually, the objective in maintaining smooth, orderly growth of monies available in the general fund would require withdrawals of accumulated earnings and ultimately of capital from the Permanent Fund. At some time in the future, therefore, the formula approach would no longer be viable, but the original concept of the Permanent Fund and its constitutional basis would have to be revised at that point in any case and this legal issue would likely be one of the least of Alaska's problems. The approach described here would be likely to postpone that day for the longest feasible time.

While the above illustration of a formula might create a "regularity" in the growth of state expenditures, it also serves to illustrate two serious limitations of a simple formula approach. First, such a formula fails to account for the long run viability of the chosen policy in the face of a depletable resource, and second, the formula might produce undesirable policy consequences should the economy enter a downturn. For example, the failure to consider the stabilization aspects of state expenditure policy by using such a formula would lead to declines in state expenditures at precisely the times when increases might be justified to offset the downward cyclical effect of, say, declines in pipeline construction.

Because of these limitations, it is essential that alternative formulas or rules be tested in policy simulations designed to anticipate the consequences of alternative rule specifications on both the short and long term growth of the Alaska economy. The ISER econometric model is designed to accommodate such alternative specifications and to test them.

ISER is completing several applications of the formula and will have the results available for the committee's review at its next meeting. As structured, both formula and the data sets related thereto are computerized and can be easily restructured to analyze the effect of policy choices the committee may wish to examine, such as allowing a 5 percent increase in state spending net of the formula's computation.

Professor Scott Goldsmith is the principal architect of the computer model and has served as the principal liaison with the committee. He is interested and willing to continue working with the committee in its efforts to assess the impacts of varying contributions to the Permanent Fund and of the Fund's investment options.

LG/m

w.o. 4350
12/9/77

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonrenewable resource revenues; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 24.20 is amended by adding new sections to read:

10 ARTICLE IV. STATE INVESTMENT OVERSIGHT COMMITTEE.

11 Sec. 24.20.600. STATE INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED.

12 The State Investment Oversight Committee is established as a permanent
13 interim committee of the legislature. The establishment of the com-
14 mittee recognizes the need of the legislature for technical review and
15 oversight of the performance of all agencies of the state which perform
16 lending, borrowing or investment functions.

17 Sec. 24.20.610. MEMBERSHIP. The committee is composed of eight
18 members: the president of the senate, the speaker of the house, and
19 three members appointed from each house by the respective presiding
20 officer. The membership from each house shall include at least one
21 member from each of the two major political parties. The committee
22 shall select its own chairman.

23 Sec. 24.20.620. TERM OF MEMBERSHIP. (a) The committee shall be
24 organized within 15 days after the organization of each legislature.
25 Members serve for the duration of the legislature during which they are
26 appointed. If a member is reelected or his term of office extends into
27 the next succeeding legislature, he continues to serve until reappointed
28 or the appointment of his successor.

29 (b) When a member of the committee files a declaration of candi-

1 dacy for an elective office other than that of member of either house of
2 the legislature, and he has not resigned from membership on the commit-
3 tee, his committee membership terminates on the date of filing.

4 Sec. 24.20.630. VACANCIES. When a vacancy occurs in the statutory
5 or appointive membership of the committee, the presiding officer of the
6 house incurring the vacancy shall choose a successor. If the office of
7 the president of the senate or speaker of the house of representatives
8 becomes vacant and a vacancy from the affected house occurs among the
9 membership of the committee, the remaining committee members from the
10 house incurring the vacancy shall appoint a new member.

11 Sec. 24.20.640. MEETINGS. The committee may meet during sessions
12 of the legislature and during the interim between sessions at such times
13 and places in the state as the chairman may determine. Members may
14 receive, for the minimum time required to get to and from meetings and
15 for the period while attending meetings, the same travel and per diem
16 allowances provided by law for members of the legislature when attending
17 sessions, except that members of the committee receive no per diem
18 during legislative sessions other than the per diem allowance paid to
19 other members of the legislature.

20 Sec. 24.20.650. POWERS. The committee has the power to

21 (1) organize, adopt rules for the conduct of its business,
22 and prescribe procedures for the comprehensive fiscal analysis, budget
23 review and post-audit functions over those agencies of the state which
24 perform lending, borrowing or investment functions;

25 (2) hold public hearings, administer oaths, issue subpoenas,
26 compel the attendance of witnesses and production of papers, books,
27 accounts, documents and testimony, and have the deposition of witnesses
28 taken in a manner prescribed by court rule or law for taking depositions
29 in civil actions;

1 (3) require all state officials and agencies of state govern-
2 ment to give full cooperation to the committee or its staff in assembling
3 and furnishing requested information;

4 (4) hold public hearings relating to the confirmation of
5 members of the Alaska Permanent Fund Board of Trustees, the Board of
6 Trustees of the Alaska Renewable Resources Corporation, and the Alaska
7 Enterprise Investment Fund Policy Board;

8 (5) prepare and distribute reports, memoranda, or other
9 necessary materials;

10 (6) make recommendations concerning the structure and operat-
11 ing practices of all agencies of the state which perform lending,
12 borrowing or investment functions;

13 (7) receive and review reports and post-audit analyses con-
14 ducted by the Legislative Budget and Audit Committee relating to all
15 agencies of the state which perform lending, borrowing or investment
16 functions.

17 Sec. 24.20.660. STAFF. The legislative audit division shall
18 provide staff reasonably necessary for the conduct of the committee
19 duties. The committee may hire and determine the salary of the adminis-
20 trative support staff it considers necessary within the limit of the
21 budget approved by the legislature.

22 Sec. 24.20.670. DUTIES. The committee shall

23 (1) report to the legislature its recommendations relating to
24 the confirmation of suggested appointees to the Alaska Permanent Fund
25 Board of Trustees, the Board of Trustees of the Alaska Renewable Re-
26 sources Corporation, and the Alaska Enterprise Investment Fund Policy
27 Board;

28 (2) annually review the long-range operating plans of all
29 agencies of the state which perform lending, borrowing or investment

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2 ment to give full cooperation to the committee or its staff in assembling
3 and furnishing requested information;

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26 sources Corporation, and the Alaska Enterprise Investment Fund Policy
27 Board;

28 (2) annually review the long-range operating plans of all
29 agencies of the state which perform lending, borrowing or investment

1 functions;

2 (3) review quarterly reports from the Alaska Permanent Fund
3 Board of Trustees, the Board of Trustees of the Alaska Renewable Re-
4 sources Corporation, and the Alaska Enterprise Investment Fund Policy
5 Board;

6 (4) present a complete report of investment programs, plans,
7 performance, and policies of the Alaska Permanent Fund Board of Trustees,
8 the Board of Trustees of the Alaska Renewable Resources Corporation, and
9 the Alaska Enterprise Investment Fund Policy Board to the legislature
10 within 30 days after the convening of each regular session.

11 Sec. 24.20.680. RECORDS. The committee shall keep a complete file
12 of all reports presented to it and all reports presented by it to the
13 legislature or any legislative committee.

14 * Sec. 2. AS 37 is amended by adding a new chapter to read:

15 CHAPTER 13. ALASKA PERMANENT FUND.

16 Sec. 37.13.010. ALASKA PERMANENT FUND. Under art IX, sec. 15 of
17 the state constitution, there is established as a separate fund the
18 Alaska Permanent Fund. The permanent fund consists of 100 per cent of
19 mineral lease bonuses after deduction of any amounts allocated to the
20 Alaska Native Fund under the Alaska Native Claims Settlement Act and
21 implementing state legislation and any amounts allocated by law to the
22 Alaska Renewable Resources Development Fund and 30 per cent of all
23 mineral lease rentals, royalties, royalty sale proceeds, and federal
24 mineral revenue sharing payments received by the state and any other
25 money allocated by law or appropriated to the principal of the fund.
26 The permanent fund consists of (1) the fund established in this chapter
27 to which five-sixths of the receipts from these sources is allocated and
28 (2) the Alaska Enterprise Investment Fund established in AS 44.55 to
29 which one-sixth of the receipts from these sources is allocated until

1 the amount so allocated reaches the sum of \$100,000,000. Thereafter the
2 total receipts from these sources is allocated to the fund established
3 in this chapter.

4 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
5 tional amendment, have required the placement of at least 25 per cent of
6 all mineral lease rentals, royalties, royalty sale proceeds, and federal
7 mineral revenue sharing payments and bonuses received by the state into
8 a permanent fund. The legislature finds that

9 (1) the permanent fund should provide a means of conserving a
10 portion of the state's revenues from mineral resources to the ultimate
11 benefit of future generations of Alaskans;

12 (2) the primary goal of the fund should be to maximize total
13 return while maintaining safety of principal;

14 (3) the permanent fund should be used as a savings device
15 until the future time when disposable income from the fund will be
16 needed to replace depleting mineral resource revenues.

17 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
18 provide a mechanism for the management and investment of permanent fund
19 assets in a manner consistent with the findings established in sec. 20
20 of this chapter.

21 Sec. 37.13.040. ALASKA PERMANENT FUND BOARD OF TRUSTEES. There is
22 established the Alaska Permanent Fund Board of Trustees. The permanent
23 fund board of trustees is a public corporation and government instru-
24 mentality in the Department of Revenue but has a legal existence inde-
25 pendent of and separate from the state. The purpose of the board is to
26 manage and invest the assets of the permanent fund in accordance with
27 the guidelines established in this chapter.

28 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board
29 of trustees consists of three members appointed by the governor and con-

1 firmed by a majority of the members of the legislature in joint session.

2 (b) The board shall annually elect a chairman from among its members

3 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be
4 appointed for terms of three years, and they may be reappointed. Terms
5 shall be staggered. Initial terms shall be one member serving for one
6 year, one member serving for two years, and one member serving for three
7 years.

8 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
9 remove a trustee from office by and with the consent of a majority of
10 the members of the legislature in joint session. A removal by the
11 governor shall be in writing and state the reason for removal. If the
12 legislature is not in session, the governor may suspend a member of the
13 board. Upon suspension, a trustee may not participate in board business
14 and may not be counted for purposes of establishing a quorum. A sus-
15 pended member shall continue to receive his salary as a trustee until
16 the legislature in joint session consents to his removal. The joint
17 session shall be held within 30 days from the date of removal if the
18 removal occurs while the legislature is in session or within 30 days of
19 convening of the legislature if the legislature is not in session. If
20 the legislature refuses to consent to his removal, the trustee shall be
21 reinstated to his position.

22 (b) A vacancy on the board shall be promptly filled by appointment
23 by the governor and confirmation by a majority of the members of the
24 legislature in joint session, and an appointee to fill a vacancy shall
25 hold office for the balance of the term for which his predecessor on the
26 board was appointed. If a vacancy arises on the board while the legis-
27 lature is not in session, the governor may appoint an interim trustee
28 who shall exercise all powers and receive the salary of a permanent
29 trustee until such time as the legislature in joint session fails to
30 confirm the interim trustee's appointment.

1 (c) A vacancy on the board does not impair the authority of a
2 quorum of the board to exercise all the powers and perform all the
3 duties of the board.

4 Sec. 37.13.080. QUALIFICATIONS OF TRUSTEES. (a) No trustee may
5 be appointed to the board who has not been a resident of the state for
6 at least three years.

7 (b) No member of the board may hold any other state or federal
8 office, position or employment, either elective or appointive, except as
9 a member of the armed forces of the United States or of this state.

10 (c) At least one member of the board shall be knowledgeable and
11 experienced in finance, investments, or other business management-
12 related field. No two members may be appointed to the board who share
13 substantially similar professional or occupational backgrounds.

14 Sec. 37.13.090. QUORUM. Two members of the board constitute a
15 quorum for the transaction of business and the exercise of the powers
16 and duties of the board.

17 Sec. 37.13.100. COMPENSATION OF TRUSTEES. Trustees serve without
18 compensation except that each member may be reimbursed by the fund for
19 travel and per diem expenses at the rate set by law for members of
20 boards and commissions.

21 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
22 determine the salary of an executive director. The executive director
23 may, with the approval of the board, select and employ additional staff
24 as necessary. The executive director may not be a trustee. The execu-
25 tive director and all employees of the board are in the exempt service
26 under AS 39.25.

27 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Trustees are subject
28 to the provisions of AS 39.50.

29 (b) No member or employee of the board shall acquire an interest,

1 direct or indirect, in a corporation, company, association, or project
2 owned, controlled, or invested in by the permanent fund. If a member or
3 employee owns or controls an interest, he shall immediately disclose the
4 interest in writing to the board and refrain from participating in any
5 manner in any board activity relating to that interest.

6 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-person rule
7 is applicable to the board in its management and investment of permanent
8 fund assets. In making investments, the board shall exercise the judg-
9 ment and care under the circumstances then prevailing which an insti-
10 tutional investor of ordinary prudence, discretion, and intelligence
11 exercises in the management of large investments entrusted to it not in
12 regard to speculation but in regard to the permanent disposition of
13 funds, considering the probable income from them as well as probable
14 safety of capital.

15 (b) The board shall seek to maintain a reasonable diversification
16 of type and maturity of investments in its investments.

17 (c) The board shall submit long-range and quarterly investment
18 reports to the State Investment Oversight Committee.

19 (d) The board may not borrow funds or guarantee loans made by any
20 other program or association.

21 (e) The board may, except as provided by (f) of this section enter
22 into and enforce all contracts necessary, convenient or desirable for
23 purposes of the fund.

24 (f) The permanent fund shall be used only for income-producing
25 investments. The board may contract only with private persons or
26 organizations to recommend or select investments for the permanent fund.
27 Investments shall be selected in accordance with (g) of this section.

28 (g) Subject to (a) of this section the board may invest its assets
29 in obligations of the United States or obligations for which the faith

1 and credit of the United States are pledged for payment of principal and
2 interest; loans secured by first liens on unencumbered realty or lease-
3 hold; and corporate stock and corporate obligations which under the
4 Securities Act of 1933 are freely tradeable.

5 (1) No portion of the assets of the fund may be used in the
6 purchase of stocks of any company whose primary business is the explo-
7 ration or development of oil or gas; nor in the purchase of stock of any
8 corporation which is not paying dividends on that stock in cash at the
9 time of purchase; nor in the purchase of bonds of any corporation, upon
10 which any regular interest payment has been defaulted at any time within
11 five years before purchase, except bonds never in default but which have
12 been outstanding for less than five years.

13 (2) No portion of the assets of the fund may be used in the
14 purchase of stocks of an issuer if immediately following the purchase

15 (A) the proportionate market value of all stocks of the
16 issuer held by the fund would exceed the greater of 2 per cent of
17 the fund's equity assets or 125 per cent of the proportionate value
18 which the securities of the issuer represent in the Standard &
19 Poors 550 stock index;

20 (B) the aggregate market value of all stock of the
21 issuer held by the fund would exceed 3 per cent of the aggregate
22 market value of the issuer's outstanding equity security; or

23 (C) the proportionate market value of all stocks then
24 held by the fund in the issuer's industry would exceed the greater
25 of 6 per cent of the fund's equity assets or 250 per cent of the
26 proportionate value which the securities of that industry represent
27 to the Standard & Poors 550 Stock Index.

28 (3) No portion of the assets of the fund may be used in the
29 purchase of corporate obligations of an issuer if immediately following

1 the purchase the aggregate value of all obligations of that issuer would
2 exceed the lesser of 2 per cent of the total corporate obligations held
3 by the fund or 3 per cent of the aggregate market value of the issuer's
4 outstanding obligations.

5 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
6 the total amount of losses on the sales of securities, not offset by
7 gains on the sales of securities during that year, shall be computed,
8 with a portion of these losses to be deducted each fiscal year from the
9 interest and dividend income and the resulting amount of interest and
10 dividend income added to the principal of the fund. Losses taken on the
11 sales of bonds shall be accumulated over a period equal to the average
12 remaining life of the bonds sold, and losses taken on the sales of
13 stocks shall be accumulated within a period of five years, unless these
14 losses are offset by gains on future sales of securities. In any fiscal
15 year in which the gains on the sales of securities exceed the losses on
16 the sales of securities, the excess shall be added to the principal of
17 the fund.

18 Sec. 37.13.150. BOARD BUDGET. The board's operating budget is
19 from the general fund and is subject to the Executive Budget Act (AS
20 37.07).

21 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-
22 tee shall conduct annual operational and performance evaluations (post-
23 audits) of the board's investments and investment programs and report
24 the results to the State Investment Oversight Committee.

25 Sec 37.13.170. REPORTS AND PUBLICATIONS. No later than the 20th
26 day of the legislative session, the board shall publish a report to the
27 governor, legislature, and the public in easily understandable language.
28 Each report must include financial statements audited by the Legislative
29 Budget and Audit Committee, a statement of the amount of money received

1 by the permanent fund from each investment during the period covered, a
2 statement of permanent fund investments, a description of permanent fund
3 investment activity during the period covered by the report, a com-
4 parison of the fund performance with the intended goals contained in
5 sec. 20 of this chapter, an examination of the impact of the investment
6 criteria of this chapter on the fund portfolio with recommendations of
7 any needed changes and any other information the board believes would be
8 of interest to the governor, the legislature, and the public. The
9 annual income statement and balance sheet of the permanent fund shall be
10 published in at least one newspaper in each judicial district. The
11 board may also publish other reports it considers desirable to carry out
12 its purpose.

13 * Sec. 3. AS 44 is amended by adding a new chapter to read:

14 CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT FUND.

15 Sec. 44.55.010. CREATION OF INVESTMENT FUND: FUNDING. (a) There
16 is created the Alaska Enterprise Investment Fund. The investment fund
17 is a public corporation and government instrumentality in the Department
18 of Revenue but has legal existence independent of and separate from the
19 state. The exercise by the investment fund of the powers conferred by
20 this chapter is considered an essential governmental function of the
21 state.

22 (b) One-sixth of the receipts of all mineral lease rentals, roy-
23 alties, royalty sale proceeds, and federal mineral revenue sharing pay-
24 ments and bonuses allocated to the permanent fund shall be paid directly
25 into the investment fund until a total of \$100,000,000 has been paid in.

26 Sec. 44.55.020. ALASKA ENTERPRISE INVESTMENT FUND POLICY BOARD.

27 (a) There is established the Alaska Enterprise Fund Policy Board con-
28 sisting of a person employed in the executive branch of state government
29 appointed by the governor and six public members appointed by the

1 governor with due regard for geographical representation and confirmed
2 by a majority of the members of the legislature in joint session. At
3 least two of the public members shall have broad experience in invest-
4 ment finance. The board shall elect one of the public members as
5 chairman and other officers they determine desirable.

6 (b) The six appointed members shall serve for four-year terms, and
7 they may be reappointed. Terms shall be staggered. Initial terms shall
8 be two members serving for two years, two members serving for three
9 years, and two members serving for four years. A member continues to
10 serve until his successor is appointed and confirmed.

11 (c) A majority of the policy board members constitutes a quorum
12 for the transaction of business by the board. Decisions of the board
13 shall be taken by a majority vote. The board shall hold at least one
14 public meeting each year.

15 (d) Members of the policy board receive \$_____ per meeting day if
16 they attend the meeting and are entitled to per diem and travel allow-
17 ances as are provided by law for members of state boards and commissions.

18 Sec. 44.55.030. REMOVAL AND VACANCIES ON BOARD. (a) The governor
19 may remove a policy board member from office by and with the consent of
20 a majority of the members of the legislature in joint session. The joint
21 session shall be held within 10 days from the date of removal if the
22 removal occurs while the legislature is in session or within 30 days of
23 convening of the legislature if the member was suspended. If the
24 legislature is not in session, the governor may suspend a member of the
25 policy board for cause. Upon suspension, a board member may not par-
26 ticipate in policy board business and may not be counted for purposes of
27 establishing a quorum. A suspended member shall continue to receive his
28 salary as a board member until the legislature in joint session consents
29 to his removal. If the legislature refuses to consent to his removal,

1 the member shall be reinstated to his position.

2 (b) A vacancy arising on the policy board shall be promptly filled
3 by appointment by the governor and confirmation by a majority of the
4 members of the legislature in joint session, and an appointee to fill a
5 vacancy shall hold office for the balance of the term for which his
6 predecessor on the board was appointed. If a vacancy arises on the
7 board while the legislature is not in session, the governor may appoint
8 an interim board member who shall exercise all powers and receive the
9 salary of a permanent board member until such time as the legislature in
10 joint session fails to confirm the interim member's appointment.

11 (c) A vacancy on the policy board does not impair the authority of
12 a quorum of the board to exercise all the powers and perform all the
13 duties of the board.

14 Sec. 44.55.040. DUTIES OF THE POLICY BOARD. The policy board
15 shall

16 (1) select and appoint the president and other members of the
17 Alaska Enterprise Investment Fund Investment Committee established in
18 sec. 50 of this chapter;

19 (2) annually review and approve long-range operating plans,
20 the budget for the forthcoming year, and the financial plan for the
21 following years;

22 (3) have responsibility on behalf of the bank for relations
23 with the general public, legislature, executive branch, local communi-
24 ties, and interest groups concerning all things excepting only those
25 matters that are the responsibility of the investment committee;

26 (4) review quarterly reports from the investment committee
27 concerning investment decisions and investment supervision, but the
28 board may not impose an investment decision upon, or override an invest-
29 ment decision of, the investment committee;

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(5) review, consider and approve policies;

(6) establish an audit committee, consisting of the commissioner of revenue and other members of the policy board to be designated by the commissioner, which shall select independent outside auditors, and receive all audit reports.

Sec. 44.55.050. ALASKA ENTERPRISE INVESTMENT FUND INVESTMENT COMMITTEE. (a) There is established the Alaska Enterprise Investment Fund Investment Committee, consisting of a president and four members appointed by the policy board. No member of the policy board may be a member of the investment committee. Members of the investment committee shall be persons of recognized competence and wide experience in investments, finance, and other business management-related fields. A member may be reappointed and continue to serve until his successor is appointed. The president and members shall serve for four-year terms. Terms shall be staggered. Initial terms shall be one member serving for one year, one member serving for two years, one member serving for three years, and one member and the president serving for four years.

(b) Four members of the investment committee constitute a quorum. Decisions of the committee shall be taken by majority vote.

(c) Members of the investment committee are in the exempt service under AS 39.25 and receive an annual salary within Range 30 in the salary schedule for state employees established by AS 39.27.011.

Sec. 44.55.060. DUTIES OF THE INVESTMENT COMMITTEE. The investment committee has sole responsibility to approve all investment proposals.

Sec. 44.55.070. BUDGET. The investment fund operating budget is from the general fund and is subject to the provisions of the Executive Budget Act (AS 37.07).

Sec. 44.55.080. PERSONNEL OF INVESTMENT FUND. Policy board

1 members, investment committee members, and officers and staff of the
2 investment fund are in the exempt service under AS 39.25.

3 Sec. 44.55.090. FINDINGS. The legislature finds

4 (1) that investment in financially sound small and medium
5 scale productive private enterprises and community development projects
6 in the state, particularly in rural areas, is of benefit to the citizens
7 of the state;

8 (2) there is a shortage of investment capital for financially
9 sound small and medium scale productive private enterprises, and com-
10 munity development projects particularly in rural areas of the state;

11 (3) that the investment fund working with private financial
12 institutions to supplement but not supplant their services can help to
13 alleviate this shortage.

14 Sec. 44.55.100. PURPOSE. The purpose of the investment fund is
15 to provide capital at market rates and terms for small and medium scale
16 productive private enterprises, and community development projects
17 particularly in rural areas of the state.

18 Sec. 44.55.110. POWERS OF THE INVESTMENT FUND. (a) In carrying
19 out the corporate purposes of the investment fund, the policy board has
20 power to

21 (1) adopt, alter and use a corporate seal;

22 (2) prescribe, adopt, amend, and repeal bylaws;

23 (3) sue and be sued in the name of the investment fund;

24 (4) borrow funds, and in that connection furnish such collat-
25 eral or other security as it determines, except that investment fund
26 borrowing may not exceed one-half of its paid-in capital;

27 (5) guarantee obligations of another corporation or legal
28 entity in order to facilitate their sale;

29 (6) enter into agreements necessary or convenient in the

1 exercise of its powers and functions;

2 (7) acquire, hold, use, lease, sell or otherwise dispose of
3 property of any kind, real, personal or mixed, or any interest in it;

4 (8) contract with state, federal and other agencies to
5 develop needed information and analyses;

6 (9) do all acts and things necessary, convenient or desirable
7 to carry out the powers granted or implied in this chapter.

8 (b) In carrying out the corporate purposes of the investment fund,
9 the investment committee has the power to

10 (1) invest, in such form and such amounts as it considers
11 appropriate, by purchasing the capital stock of, or lending money to,
12 projects, except that any investment in the capital stock of or other
13 ownership interest in a project may not exceed 49 per cent of the
14 capital stock of, or other ownership interest in, the project, and no
15 loan or other investment in the project by the investment fund may
16 exceed 90 per cent of the cost of the project unless, in the judgment of
17 the committee, additional amounts must be loaned to protect the inter-
18 ests of the investment fund;

19 (2) deposit funds, or invest funds through the permanent fund
20 in such obligations as it may determine;

21 (3) buy and sell securities the investment fund has issued or
22 guaranteed or in which it has invested;

23 (4) do all acts and things necessary, convenient or desirable
24 to carry out the powers granted or implied in this chapter.

25 Sec. 44.55.120. INVESTMENTS. (a) In making investments, the
26 investment committee and staff shall exercise the judgment and care
27 under the circumstances then prevailing which a person of ordinary
28 prudence, discretion, and intelligence exercises in the management of
29 his own affairs taking into consideration the probable income from the

1 investments as well as probable safety of principal.

2 (b) An amount equal to at least 150 per cent of all guarantees by
3 the investment fund shall be invested in investment-grade securities.

4 (c) The investment committee may invest not more than 50 per cent
5 of the resources of the investment fund to provide a reasonable pro-
6 portion of longer-term investment capital for financing the establish-
7 ment, improvement, and expansion of productive private enterprises which
8 will benefit Alaska, and for which sufficient capital is not available
9 from other sources on reasonable terms. These investments may take the
10 form of equity, debt, or debt guarantees.

11 (d) The committee may invest no more than 50 per cent of the
12 resources of the investment fund in financing a reasonable proportion of
13 the longer-term investment capital needs for community development
14 projects of municipalities and public corporate entities and private
15 dwellings in the state for which sufficient financing is not available
16 from other sources on reasonable terms. These investments may take the
17 form of debt or debt guarantees.

18 (e) The committee may not invest or guarantee obligations totaling
19 more than five per cent of the resources of the bank of \$1,500,000,
20 whichever is less, in a single project unless the legislature has
21 approved the investment by concurrent resolution.

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22 (f) The committee may not undertake any financing for which, in
23 its opinion, sufficient private capital could be obtained on reasonable
24 terms.

25 (g) The committee may not assume responsibility for managing any
26 enterprise or project in which it has invested and may not exercise
27 voting rights for that purpose or for any other purpose which, in its
28 opinion, properly is within the scope of managerial control.

29 (h) The committee shall only undertake its financing on terms and

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1 conditions which it considers appropriate, taking into account the terms
2 and conditions normally obtained by private investors for similar fi-
3 nancing, the requirements of the enterprise or project, the risks being
4 undertaken by the investment fund, and the participation of other
5 investors unless the legislature has appropriated funds for subsidizing
6 investments which in the opinion of the investment fund are of such high
7 priority that special terms and conditions are appropriate.

8 (i) The committee may seek to revolve the investment fund's money
9 by selling its investments to other investors whenever it can appropri-
10 ately do so on satisfactory terms.

11 (j) The committee shall seek to maintain a reasonable diversifi-
12 cation in its investments.

13 (k) The committee shall only consider investment proposals after
14 the applicant for an investment has submitted a detailed proposal to the
15 committee's staff and the staff has prepared a written report recommend-
16 ing the investment after a study of its merits.

17 (l) The committee shall analyze the economic and other effects of
18 an investment decision, including the effects on employment, income
19 distribution, environment, health, social and other factors. The
20 committee shall be sensitive to the views of affected local communities
21 and shall include an analysis of those views in proposals for large
22 investments.

New Page

23 (m) The committee may guarantee qualifying loans made by financial
24 intermediaries in order to facilitate investment by the intermediaries
25 in specific enterprises or projects whose individual financing require-
26 ments are not, in the opinion of the committee, large enough to warrant
27 its direct supervision.

28 (n) The committee shall provide for operational and performance
29 evaluations (post-audits) of its investments and investment programs and

1 report the results to the policy board.

2 (o) Nothing in this section prevents the investment committee, in
3 the event of actual or threatened default on any of its investments,
4 actual or threatened insolvency of the enterprise in which the invest-
5 ment has been made, or other situations which, in the opinion of the
6 investment committee, threaten to jeopardize the investment, from taking
7 such action and exercising such rights as it may consider necessary for
8 the protection of its interests.

9 Sec. 44.55.130. INITIAL DETERMINATIONS. Before beginning its
10 financing operations, the policy board shall render a detailed report to
11 the legislature which shall

12 (1) define the sectors which need financing for expansion of
13 existing projects or the development of new projects;

14 (2) define the size and nature of projects which are feasible
15 for investment fund financing;

16 (3) determine specific projects which are feasible for invest-
17 ment fund and private financing;

18 (4) determine the availability of private investment capital
19 for the projects it determines are feasible;

20 (5) forecast the capital requirements of the investment fund
21 for the first three years of its operations.

22 Sec. 44.55.140. REPORTS AND PUBLICATIONS. The policy board shall
23 publish an annual report to the governor, legislature and the public.
24 Each report shall include financial statements audited by independent
25 outside auditors, a statement of the amount of money received by the
26 investment fund from each source during the period covered, a statement
27 of investment fund investments, a description of investment fund invest-
28 ment activity during the period covered by the report, an analysis of
29 economic and other effects of investment decisions including, but not

1 limited to, the effects on employment, income distribution, environment,
2 health, social and other factors, and any other information the policy
3 board believes would be of interest to the governor, the legislature and
4 the public. The investment fund may also publish such other reports as
5 it considers desirable to carry out its purpose.

6 Sec. 44.55.150. CONFLICT OF INTEREST. (a) Members of the policy
7 board and investment committee are subject to the provisions of AS 39.50.

8 (b) Members of the investment committee shall disclose their
9 financial interest in an investment proposal and disqualify themselves
10 from voting on any investment proposal in which they have a financial
11 interest. The committee may not make an investment in any project or
12 enterprise in which officers of the bank have a financial interest.

13 Members of the policy board are prohibited from all attempts to influ-
14 ence the investment committee, its president or staff in the discharge
15 of their ordinary operating duties. All officers of the investment fund
16 in the discharge of their offices owe their duty entirely to the invest-
17 ment fund and no other authority.

18 Sec. 44.55.160. POLITICAL ACTIVITIES. The members of the policy
19 board, members of the investment committee, and officers and staff of
20 the investment fund may not engage in partisan political activities.
21 The resources of the investment fund may not be used to finance any
22 partisan political activities.

23 Sec. 44.55.170. PUBLIC ACCESS TO INFORMATION. Information in the
24 possession of the investment fund is a public record, except that infor-
25 mation which discloses the particulars of the business or affairs of a
26 private enterprise or investor is confidential and is not a public
27 record. Confidential information may be disclosed only for the purposes
28 of an official law enforcement investigation or when its production is
29 required in a court proceeding. These restrictions do not prohibit the

1 publication of statistics presented in a manner that prevents the
2 identification of particular reports, items, persons, or enterprises.

3 Sec. 44.55.180. TAX EXEMPTION. The investment fund is exempt from
4 all taxes and assessments in the state. All security instruments issued
5 by the investment fund, their transfer, and their income are exempt from
6 all taxes and assessments in the state.

7 Sec. 44.55.190. DEFINITIONS. In this chapter

8 (1) "board" or "policy board" means the Alaska Enterprise
9 Investment Policy Board established by sec. 20 of this chapter;

10 (2) "business enterprise" means a private corporation, firm,
11 partnership or sole proprietorship;

12 (3) "committee" or "investment committee" means the Alaska
13 Enterprise Investment Fund Investment Committee established by sec. 50
14 of this chapter;

15 (4) "fund" or "investment fund" means the Alaska Enterprise
16 Investment Fund.

17 * Sec. 4. AS 39.25.110 is amended by adding new paragraphs to read:

18 (21) members of the policy board and investment committee, and
19 the president, officers, and staff of the Alaska Enterprise Investment
20 Fund;

21 (22) members of the board of trustees, the executive director,
22 and staff of the Alaska Permanent Fund Board of Trustees.

23 * Sec. 5. AS 39.50.200(9) is amended by adding new subparagraphs to read:

24 (NN) Alaska Enterprise Investment Fund Policy Board and
25 Alaska Enterprise Investment Fund Investment Committee;

26 (OO) Alaska Permanent Fund Board of Trustees.

27 * Sec. 6. This Act takes effect immediately in accordance with AS 01.10.-

28 070(c).