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T E S T I M O N Y

before the
House Special Committee
on the Alaska Permanent Fund

by Harold E. Pomeroy

Sept. 15, 1977

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The "preliminary report" by your committee "on the Alaska Permanent Fund", is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund (P.F.) are so complex and extraordinary, however, that enough data from which to draw well considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

Such qualifications as I may have to appear before you on the P.F. come mostly from actual experiences. I think that reference to these experiences may be useful.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry would be too meagre to be feasible.

It looked as though importing ten thousand or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability.

I was raised in alfalfa ranching and dairying in Los Angeles County. After six wearying years in Europe the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay, operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone.

(one remaining)

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization asked for a conference on behalf of peasant Russian emigres from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple life style. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

The Russians were enthusiastic about agriculture. We cautioned that they should be ready to do anything as agriculture might be too meagre. They are now hard-working, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials too limited.

They have been self supporting from the outset and now have more children in their grade school than there are in the Anchor Point school. If more consumers produce

prosperity I imagine this success story is a good thing.

When the Legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initiated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one, since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry nor its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high value nitrogen fertilizer urea could be a big boost to agriculture. Anyone can drive his truck to the plant and have it filled with bulk urea. This has not improved the agricultural outlook. ***

In 1972 the Legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were 6 more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U.S. federal government grants for the infra structure required. The underlying problem however, was economic feasibility - the product simply could not compete in the international market. I have heard no more of the other six - just waiting to go. ****

Al labor
supply is
US

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved I have been interviewing persons at random since the end of the Cook Inlet - Kenai Peninsula oil and gas development boom - hundreds of them. The persons queried are as varied as: truck-drivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitch hikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work, are you staying? Not one has told me that he was disillusioned and leaving or couldn't get a job.

constant pressure

!!!! yes!
* * *

From experiences and observations since the organization of the Kenai Peninsula Borough following the Oct. 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of newcomers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. Whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment - or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax. The property is a substantial body of copper ore

which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be \$1.20 to \$1.25 per lb, for the enterprise to break even. Copper on the world market was then between 50¢ add 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility, but the State would be incurring a cost of several million dollars for public services .

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation". This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the P.F. and everything else concerning the future.

If anyone believes we should spend as convenient as we go along and accumulate in the P.F. only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety and level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had ^{previously} ~~previously~~ been able to support. Costs in Alaska are higher than elsewhere - for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the Legislature and a "bureaucracy gone

wild". There are always some inefficiencies , extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to " grass roots " will bring expenditures way down is deluding himself.

The upshot of the situation is that the State is disbursing close to \$1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almost total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than pay our currently relatively moderate taxes. In fact the report implies the probability that use of P.F. money to diversify will require benefits such as ~~long~~ low interest rates - meaning some measure of subsidy.

Taking account of the central reality of our situation, one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on page 9 of the report is an excellent statement. I would change only the second word from "may" to "will" so that it reads "subsidies will only make sense if the loan ^{will be rep}". This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraphs on page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in section B, Anch. Times, 9/4/77 be given close attention. It states inescapable facts, but also quotes what seems to me to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is

quoted as saying :

"In fifty years farming and prices might no longer be marginal. It's something to plan and work for." and "... It would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry..."

Hopeful we don't go overboard.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on page 5 of the report states, "As oil wealth declines, the P.F. may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will" . A qualification might include words such as "... barring some unpredictable windfall ."

The first paragraph on page 5 touches the underlying concept of the P.F. by referring to preserving the dollars into which the oil and gas wealth is being transformed. Dr. Barbara Bergman, of the Univ. of Maryland, speaking on a panel on Sept. 10, said: "The idea of the P.F. is to preserve resources for future generations". Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the money for high return can help preserve the value of the dollar resources.

There is probably no more important statement in the report than the sentence on page 9 "If no in-state opportunities exist, the P.F. cannot create them." In other words, if the requisite conditions for economic viability are not present the State cannot buy them. Further, as a general proposition, if requisite conditions are present, money is available and the State need not go into the financing business separately. This, of course, excludes some social purpose which might be deemed worthy. Any action in this direction should be based on a clearcut identification

of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating: if the State's budget is increased an average of 10% per year, the budget in less than 20 years will be \$6 billion; the 10% annual increase might be made up of 5 - 6% inflation, 2.5% ± population increase, the rest in services expansion. Gold production in 1976 showed a big increase over 1975. If state revenues totalled \$20 per troy ounce of gold for 1976 (a ridiculously high figure) this revenue would be equal to about 4 hrs of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million bbls per day.

Recently an exuberant state official said the 200 -mile limit provides us with such potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the officials enthusiastic figures indicates that the revenues to the State by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet - Kenai Peninsula fields it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principle. We haven't made clear the picture as to the possible total of the abnormal oil and gas revenues - not just the revenues of which 25% must go

into the P.F. Figure 1 on page 6 of the report is a good start but it isn't enough. I suggest there should be an expenditure chart starting in 1974 or 1975 and projecting on to about 1997. It would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (incl. the pipeline tax), and the "normal" revenues, shown separately.

The people need to be informed more fully - if possible - in order to make value judgements on any aspect of the oil and gas revenue. More information might lead to better perception as to a basic goal for the long time future and perhaps influence judgement as to "diversification" and "renewable resources" versus "Investment in high yield, low risk securities", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the average of seven construction industry classifications, incl. laborer, had risen to \$15.43 an hour, excl. fringe benefits, by last January.

If the people should believe it desirable to feed and nurture the P.F. to maximum feasible size and productivity, the result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

Statement for the Special Committee for the Alaska Permanent Fund for the September 15, 1977 public meeting in Anchorage.

From Betzi Woodman, 117 E. Cook Ave., Anchorage, Alaska 99501

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this our adopted home. I have been involved in numerous volunteer activities over the years and after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent Fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented \$900 million in oil and gas lease bonuses in 1969, the late Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had--a lot or a little--the desires would be the same: to maintain that peculiar Alaskan quality of life and to enhance it.

Brainstorming sessions revealed that defining Quality of Life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically, however, accomplishing this goal would include:

- Protection of environmental values
- Conserve non-renewable resources
- Develop renewable resources, particularly fisheries
- Provide educational opportunities which fit the peoples' needs and desires
- Encourage cultural development
- Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases in development--such as industrial--and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

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The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline.

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. Alaskans, for all their vaunted strengths, are also very human. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership--you, in fact, --can help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something--that they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So--with that for background, here is my suggestion:

Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined below) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facility or addition of a wing, etc; acquisition of art works or museum material; salary for curator/director; assistance in retiring debt on existing facility; furnishings for such a facility--new or to upgrade; sponsorship of a program recognized as valid for the type of facility--i.e. instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representative of public interest and use.

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DEFINITION: A cultural facility is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of: the State Council on the Arts and its member local arts councils or an authority or commission set up especially for this matter--always keeping in mind that the local interests get true representation. The object would be not to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and that projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuses of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 per cent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in the views ^{on art} of the average working person talked with 400 blue collar workers--maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study "Opinions of Working People Concerning Art." Some critics hailed it as the first "tell like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. "We found that contrary to the general belief, they (man and woman on the street) like art, enjoy it, feel it worthwhile, know much more than we (the arts world) give them credit for...and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps--that they act in neighborhood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeal to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage Borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an 11-community Cultural Facilities Development Committee reads:

"We who are involved in the arts know the importance of cultural facilities to the life of a community. We also know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, providing entertainment,

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cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, humanities and mankind. By providing a cultural home for the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment. "

If ever there were something which would contribute to and enhance the ~~the~~ Quality of Life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest of cities, would be the catalyst.

We CAN do it differently in Alaska and this is one exciting, beautiful way. And we DO care how they do it Outside because that's where we learn, both what to do and what not to do.

Thank you--

Betzi Woodman

Proceedings
of
The House Special Committee on the Permanent Fund

PUBLIC HEARING
September 15, 1977
Anchorage

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

GRUENING: Good morning. We'll call this meeting to order. We've got a list of people that want to testify and I think there are some that are not on the list and we'll just take you down on a Quaker basis. You raise your hand and come forward and testify. Don't let the ads put you off. I saw the ad in the paper that this was called the House of Permanent Fund like the House of Pancakes. This is the House Special Committee on the Permanent Fund.

Representative Ernie Haugen on the committee from Petersburg told me this morning that he heard on the radio that this meeting was to hear from you folks on how to spend the fund. I can assure you that is not our intention. We want to hear we can preserve that fund and we are just as interested in what you don't want the fund to do as what you want it to do.

We had a very interesting hearing in Fairbanks. We heard a lot of what people wanted it to do and what they didn't want it to do. Since it's your fund and before we actually draft specific legislation for consideration of the whole legislature, we want to hear your philosophical approach. So this is---don't feel you have to be an investment banker We are really talking about philosophy today.

Also with the committee is Representative Bill Miles

and Representative Russ Meekins who is on the committee will be here shortly. Our A.A. to the committee is Mike Doogan and he may be asking some questions today. Do you have any statements, anybody, that you would like to make? OK, our first witness is Senator Joe Orsini.

ORSINI: Mr. Chairman, members of the committee. Thank you for the opportunity to make a little pitch here. I will be brief. My concern is not at this point with what the use of the Permanent Fund is going to be, but how the uses are determined. To a large extent, the legislature will undoubtedly set broad policy guidelines, but the actual management of those guidelines will be done by some body or some group of people and I'd like to address my remarks to how that group of people come into being chosen.

The Permanent Fund was overwhelmingly adopted by the public last year, as we all know. I suspect that your hearings are turning up a variety of opinions when it gets down to the specifics of how that money is going to be used. I would also imagine that probably there isn't a great deal of coalescence of public opinion at this point and people are kind of vague about it except for those people who happen to be in investment or other kind of industry that is directly involved with it. I would also suspect that, despite the good efforts of this committee in trying to get the issue before the public, that until something real; happens or

until the fund is viable such that the impact is being felt substantially in whatever corners that money is going to be spent that the general public will not become involved in this. I could be wrong, but I think that is likely to happen.

On the other hand, people who are knowledgeable about such things as large investment fund maintain that those who control this fund will be extremely powerful in a political-economic sense in the state and probably to the extent that the size of the fund in the next 5-10 years is probably unprecedented with respect to any other state in the Union as a proportion of our state budget. This concept of the power of the fund manager will probably come to pass.

For these reasons, it is my opinion that the managers of the fund ought to be people who are directly accountable to the people, the voters and the general public of the state as opposed to being selected by some other secondary method --- as a panel selects potential people from whom the governor selects. This is sort of a circuitous approach which, in my opinion, ought not to be implemented. I think that one man ought to be directly accountable to the public. As the public sees a need for change in the way in which that fund is invested or used, that change will be reflected in the debate when these people run for their office. And, of course, it

ought to be a full pay, full time office, not just a token or a commission, but a full time, full pay position. The people that run for that, I would think, the public would demand that they have some ability and expertise in handling money in that it is more strictly aimed at than, say the legislature, which is a very broad type thing.

I think the problem with, say, a gubernatorial appointment is that every four years the governor runs for election and there are many, many issues that the governor has control of or discusses and the Permanent Fund will be lost in so many other issues that the governor is involved in --- any governor. I think that this is important enough that they ought to be separately elected.

The frames of the constitution, the state constitution, of course, determines that the governor is the one that has the appointing authority and there are no other elective officers on a statewide basis other than the legislature. But I think that the constitution was framed more than 20 years ago and the state has changed its standards. And we are into an area now, with the oil starting to flow, of a yet greater change than we have seen in the past. And this change should give one reason to take another look at the constitutional concept of only the governor being elected and look at those kind of offices that are perhaps of genuine statewide importance and have statewide input for that particular concern.

That's really the extent of my testimony. I would urge you to take a look at the concept of having elected people managing the funds. It can be done without changing the constitution as long as the governor has some choice, you could have an elected official---is what I'm told by the Legislative Affairs Agency. Of course, the cleanest way is a constitutional amendment.

GRUENING: Thank you, Senator. Can you stay for a few questions? Any questions from the committee? Representative Haugen.

HAUGEN: Senator, how did you set up the---you mentioned qualifications for the fund manager---that it would have to be people with expertise. Have you got any idea as to how you would qualify that? How would you set these qualifications up?

ORSINI: I wouldn't. I would let the public---presumably ---running for the legislature, there is---you don't have to be particularly have to be an expert in anything. The legislature deals with all kinds of things.

I think the Permanent Fund is different. It is a function of investment. I would think that the public would always

vote for those people who at least have some sort of ability or have evidenced some sort of experience in finance. Maybe he's been a banker, maybe he's been a union fund manager, maybe it's been a whole raft of things that have become involved in the financial implications.

HAUGEN: But you would first have the public set up the background essentials and then ...

ORSINI: No. I think it ought to be an elective office, period, with no other than---I would have no more restrictions on that office than I would have on an office of the legislature.

HAUGEN: Oh, I see. I thought you were implying that you wanted restrictions.

ORSINI: No. I think the public, as the public, will vote for those people who have some of those qualification.

HAUGEN: OK, thank you.

GRUENING: Mike.

DOOGAN: Senator, have you given any thought to whether these people should be elected on a statewide basis or by region or anything like that?

ORSINI: I would support a district basis to assure that there are a variety of interests. I suspect that you are hearing from various parts of the state has borne that out. That different parts of the state do have different concepts as to how that fund should be used. I think that on a district basis it would be preferable. It may be, my suggestion would be some combination of existing election districts where you group---an individual would run for a seat that would be comprised of several election districts so that you wouldn't have the new election districts to try and fit in.

GRUENING: Senator, you hit on probably one of the more difficult issues for the legislature and that is the issue of control. When you have a sizable fund, people are concerned about who is going to control it. It occurs to me that what we'd have there is---we'd be establishing two legislatures to the extent that you increase the size of the Permanent Fund, you'd have a competing legislature. And whether you needed a constitutional amendment or not, I think you do. Do you see any problem with establishing essentially two

legislatures and---with a very strong executive in this state? Wouldn't that kind of tip the balance in the constitution where we have a legislature, although not, maybe not a match for the strong executive, at least it is one body and has the power of the purse. This might fragment it into two. Have you considered that aspect of it?

ORSINI: Mr. Chairman, I don't think you'd have two legislatures. I think you may have two legislatures if you, for example, took certain legislators and put them into Permanent Fund managers. They would almost be operating a separate legislature. But this is a separate body and this body would still be subject to the law as passed by the legislature and signed by the governor. I would presume that we would have laws of general conceptual of appropriateness to the way in which the Permanent Fund is used and this group would have to operate under those laws.

But still, like any law, whatever executive authority it is has a varying amount of leeway, depending on how tightly those laws are written. I don't think you'd be---you'd have another group just as you have the executive and you have the judiciary and you have the legislative groups now. This would to some extent, with the more narrow confines, I suppose, would be almost a competing group who would have also direct public accountability. But I

don't think you are getting into a separate legislature. A lot of it depends on what the ultimate will of the legislature is with respect to the types of use this Permanent Fund is put to.

Basically, if the legislature decides anything other than maximizing a safe return on the investment, then you are subsidizing some group. It may be homeowners, it may be investing people, it may be fishermen, it may be farmers, it may be any one of a number of groups, whether a narrow constituency or broad statewide groups. It is still some special group or a series of special groups. As opposed to having maximizing returns, having them coming into the general fund for use of legislative determination of how the funding should be spent.

GRUENING: You raised an interesting point there. You were saying that, if I understood it correctly, that when you are dealing with anything but a sole criteria of maximizing income, there is usually some subsidy involved and if you are going to do that there ought to be some equity or some representation.

In other words, if you are going to dole out subsidies, it ought not to be done, let's say, at the decision of some expert, but rather somebody that's responsive as an elected official.

ORSINI: Yes.

GRUENING: Well, let me toss this out as an alternative to that. The extent that you get into the programs which involve subsidies, what do you think of handling it as we do now in the general fund loan programs, in that we establish them out of the general fund, that with the Permanent Fund, you establish that criteria of maximum---of conservation of principal and return the income.

In other words, rather than do everything you have been doing with the general fund, put the Permanent Fund off to the side and say, "OK, we're not---that's the one fund that is not going to be, let's say, doled out, as, say, political pressures dictate, but will be at least for the short run set aside for just preserving capital and producing income." In that way, you don't have that accountability problem that is difficult when you do get into subsidies.

ORSINI: I think I have been on record as personally supporting that concept. Certainly in the short term. As the Permanent Fund grows and as the public becomes more aware of it, you will make a policy at some point. But I think that in the near future it ought to be managed for maximum return, maximum safe return on investment.

GRUENING: Thank you very much. Any other questions? Thank you, Senator. Our next witness is Robert Rutherford. Did I pronounce that right?

RUTHERFORD: Yes. Mr. Chairman, members of the committee. Thank you for the opportunity to appear. I'm not exactly--- consider myself very experienced with these things. I hope I understand the intent of the hearing.

My business, as you may know, is a consulting engineer working primarily with the electric utilities throughout Alaska. So, most of my experience in Alaska since I came here in 1950 has been related primarily to the electric utilities industry. Along the way in working with these utilities, of course, the business of providing money for the development of electricity, that unique energy that really contributes to the quality of life, is one of the things that we are constantly dealing with and I have some thoughts to share with you and I hope along the way that I can understand the intent better so that I can add to this with some written testimony which I can supply later. Will I have the opportunity to submit some things in writing later?

GRUENING: Yes. And I'd like to say for everyone here that we'll accept written statements any time until the time

of the session. There are kind of informational booklets the committee has prepared with a questionnaire on the back. Feel free to help yourself to that and, Paul, why don't you take a stack of that so people don't have to come up. Grab them and they can help themselves. Go ahead, sir.

RUTHERFORD: Let me recite a few areas where it's occurred to me that the Permanent Fund or something similar to it, at this point, I'm just trying to understand what some of the concepts for it might be, what the committee might be thinking about it. Let me talk about these briefly. There are several areas where I believe that the use of the Permanent Fund might be valuable to Alaska.

First off, I'll start out with saying that I believe that my understanding of the Permanent Fund that its use should be on a basis where it's returned. In other words, that it is not intended as a gift, that it should be used in a manner that it is returned to the Permanent Fund if it is loaned on various bases. My own personal feelings are that the fund should be used in that manner. So that it does not definitely become part of the system of grants, perhaps.

GRUENING: Incidentally, that's a constitutional requirement,

the way they---it can only fairly be read to preclude grants.
It would have to be income producing.

RUTHERFORD: That probably was in my head from back a ways and I'd forgotten it was already a constitutional provision.

One of the areas where I believe the fund could be used, I like to talk about a minute, is perhaps might be considered as marginal in the sense of whether or not it might be a grant, but, let me explain. There are a number of projects that I have seen as potential in Alaska which are the nature of being somewhat unconventional because of the unique requirements of some Alaska situations. So there are some areas where ---I'm speaking of the electric utilities business where the utilities could use some support for projects that engineers such as myself believe are feasible projects and good projects, but at the same time they may be somewhat unconventional and on that account may have some difficulty in obtaining funding from the more usual sources. I'll give you an example or two.

There has been under study by the Alaska Power Administration some ways in which electric energy can be brought to some of the small villages of Alaska on a basis that, perhaps, is a little more reliable and feasible than some of the present

systems that are in use, mainly small individual generating plants scattered around in the various isolated villages. In an effort to evaluate whether there are some alternatives to that, and in particular see if there is some possibility of being able to deliver forms of energy that can displace fossil fuel, the Alaska Power Administration has in this case asked us to do some studies relating to interconnecting villages with transmission lines, or lines of some kind whereby a group could then receive energy from a larger central supply source or perhaps a small hydroelectric project. And of course, as you know, hydroelectric projects are determined by where the water is and where there's the head and invariably it's necessary to take that energy and deliver it. So, in the small village communities, the only alternatives are to figure out a way to interconnect.

There is a concept that I have presented in these reports that is not unique in the world, but it is somewhat unconventional and it's what I've called a "one wire ground return system" of transmitting electricity. It's been used in many parts of the world. The technology is well known. It's not something that's R & D. It is unconventional. There is a small report here that's been prepared suggesting a demonstration project along the Kuskokwim, perhaps centered around Bethel, to interconnect some of the villages that are now supplied primarily by little individual

generating plants. In some cases each home has its own plant. In some of the villages there is a centralized system.

For such a project, I'm convinced that eventually a project of this kind can probably be financed by REA funds, for example. But at the moment its unique characteristics is such that REA says that, well, it isn't exactly according to our specification, our standards. I've had some nice discussions with them, for example, and I can see their engineers believe me. But there's a few hangups that relate to the uniqueness of the system and I'm suggesting that, perhaps through the use of the Permanent Fund and whoever operates it, that some of these unique solutions that may be adaptable to Alaska be given consideration that perhaps some of this fund could be used as a pilot project.

Which I'm saying again is not R & D. It may be unconventional, but I'm convinced would be feasible. You could then produce what you might call a yardstick . That word has been used in other areas to say this is a feasible project. And that means generate additional support from such as REA by saying, "Here's a project that works." This is the way it's doing. We'd like to build a lot more of it.

In the case of REA, the whole philosophy behind it--- their own program is such that, to me, it's a natural to do

this kind of thing. But it does need a little yardstick, something to get it going. Maybe the Permanent Fund, as an Alaskan fund, can help produce a yardstick program that is required for Alaskans because of the unique or unconventional nature of some of the solutions we have to deal with.

Along with this one wire scheme, it just happens also that in the Bethel region there are some interesting records regarding the wind. There is some possibility for the use of wind as power to supplement diesel generation. Because the delivery cost of the fuel, etc., are pretty high, why the cost of energy in those regions are exceedingly high. And even though wind power generation is a very high-cost scheme, basically today, some of the figures we have digested make it look as though it might be useful if it were part of an integrated system where it's not the sole source of energy, but simply used as a supplement to displace higher cost diesel fuel. So the little report suggests the possibility of adding a little wind generation to find out if that is true.

In another area of the supplying power, electrical power, to small villages, you are all acquainted with AVEC, I think most of you know about the Alaska Village Electric Co-op, which is attempting to do the job throughout Alaska, using REA money. Practically all the clients that are in use are diesel clients isolated with

the same problems that I'm talking about here. I think in some cases we can show that interconnection can help that.

But there are some other things that can be done besides the one wire line, for example, and that would be some improvements in the design of diesel electric generating equipment. Here again, there are a number of things that are available in industry. We're not talking about R & D, but we're talking about something that would be a little bit unconventional. Somebody would have to spend a little bit of money to put in the first step.

One of the areas I'm talking about is the operation of diesel electric equipment. One of the big difficulties in these isolated areas in operating the equipment in a reasonably efficient mode and with the electric load bouncing up and down over the daylight, nighttime hours, it's difficult to keep a generating unit running at an efficient load. So, conventional designs of such equipment, having been developed over the years, using the trade-off of fuel cost and other things that generated those designs by the manufacturer, have resulted in designs that are not necessarily adaptable to some of the problems we've got now resulting from high fuel costs and the very isolated nature of some of these systems. Here again, we believe, and there are other engineers who would

go along with this, I'm sure, that there are some modifications of standard generating devices that can be developed, put in a pilot project and shown to be workable. Perhaps that is something that could be done in some other ways too, but I'm using it as an example to say there are some solutions that I believe, as an engineer, are adaptable to Alaska conditions where they might not have been thought about or even useful on the basis of the trade offs in other areas. And perhaps the Alaska fund, Permanent Fund, can look with a different eye on the things that are peculiarly Alaskan in terms of some of the solutions that we need to find.

Getting away from the pilot nature or yardstick nature of projects which the first ones I talked about are, I would suggest some other areas where I believe the Permanent Fund could do some great things for communities of Alaska in energy. And that would be for the fund to participate in some manner with communities in funding for a renewable resource project such as hydroelectric development. I don't have to tell you about hydro---I know that Ernie has been pounding the table for hydroelectric in the communities of Southeastern Alaska for a long time and I'm sure that he would feel that this Permanent Fund could be a tremendous aid to the community to that area. What I'm suggesting is perhaps there is three modes of participation that might be considered.

One of them, of course, would be just a complete funding of a hydroelectric project on a loan basis, long term at appropriate interest rates, lower interest rate, loan to accomplish a hydroelectric project. Through the use of the Water Resources Revolving Fund, which has been operating for a year or two, some communities have been able to get front money to investigate such projects and get them up to the point where it's a go or no-go proposition and then they are faced, of course, with going to the bond market or looking for other sources of funding to actually accomplish the project itself.

And that's where I'm suggesting that the Permanent Fund could participate, either complete funding, perhaps partial funding, and maybe there would be other sources of money, but there would be mutual benefits in lowering interest rates, etc., if the Permanent Fund could participate with a portion of it.

And perhaps the third way would be using the Permanent Fund in a guarantee mode of some kind to guarantee a project rather than using the money directly, backing up a community in the offering of a bond with the guarantee of sorts.

Perhaps I'm influenced to some extent and been sold by the fact that I've been working with REA for a long time, the federal agency. And today they used those three modes for

working with utilities that they finance.

One is a direct loan program, in which, as you know, I'm sure they have two interest rates that are used. They have a certain amount of the money that's loaned out at 2% interest on a 35 year basis and they have some other direct loans they make at 5% interest on 35 year loans.

And they also have a participation program with other lending agencies where they loan part of the money.

And they have guarantee programs.

I'm suggesting that perhaps the Permanent Fund could look to communities for help in energy projects in a similar manner. That there may be something really worth looking at there for the use of that Permanent Fund.

To be a little more particular about renewable resource projects and what it means to Alaska, the hydroelectric development has one thing about it that is---well more than one thing, but---the thing I'm referring to, one thing about it that is quite different than other energy projects and that is that once it's built, its cost, for all practical purposes, do not escalate. And as a practical matter today, we know that almost everything else has been escalating at a pretty substantial rate and most of the economists that make any kind of forecast at all agree generally that escalation is part of the real world and is some-

thing that ought to be considered when you compare alternate projects of one kind or another.

This is one very important difference between the hydroelectric development and alternate energy, electric energy supply systems that you fuel. Because, as we all know sorely, fuel costs certainly have been escalating. And it looks like they're going to continue to escalate because of the fact that we're running out of fuel. Just for the purpose of finding more of it and developing the lesser profitable fuel resources, we know that we are looking at escalation.

On the other hand, the hydroelectric project, once it's built, the sun does the job. It's solar energy, really, and it's free. The falling water is there, it does not escalate. So that obviously there are tremendous benefits to a community when hydroelectric development can take place and displace the fuel they might otherwise have to buy at an escalating rate. And I've made some estimates over a period from now to the year 2000 and the differences are startling if you compare and if you assume some reasonable escalation rate and make a comparison. So, while the support of a project of that kind, I'm suggesting by the Permanent Fund, would be on a loan basis, you'd get your money back like any other loan, it would have a tremendous spinoff on the community itself and obviously

the state in terms of number one, electric cost to the community, number two, stretching the fossil fuel resource because it displaces what would otherwise have to be consumed in the fossil resource.

Another area that the Permanent Fund might find use, and this one is perhaps a little more way out, pardon the expression, I think it is real however and there may be some opportunities for the Permanent Fund to be used this way and that would have to do with some more major developments of energy systems in Alaska. Such as, the support, perhaps through the use of guarantees, I'm not suggesting direct loans in this case, but that it could be very influential in the feasibility of such projects. A major project such as a generation of transmission system for Central Alaska which would extend from Anchorage to Prudhoe Bay. As come of you may know, I've suggested electrification of the gas line and oil line route. I believe that it's feasible because the energy displaced by such electrification has a pretty fancy value today. And if you look at the value of the energy you displace, that would otherwise be burned in the simple transportation of the energy through Alaska, you can show that the electric isolators, that the electric generation would be feasible just from an economic point of view. And of course it would again substantially impact those fuels which---the ones I'm talking about now are oil and gas.

Now where do you get the electricity to do this? Well, there's other fossil resources such as coal. I believe that coal fired electric energy can probably be feasible to displace oil and gas. Coal at the present time---and I'm thinking about fuel is at a lower priority than gas and oil---and so it might be useful to displace that oil and gas.

Obviously, hydroelectric energy could certainly be used to do the job. It does also appear along the way, though, that the hydroelectric project that we are looking at today in this region---which in this case would be like a Susitna development---that most of that hydroelectric energy can actually be absorbed for other purposes in Alaska. It can be used by the community for their normal load growth of Anchorage and Fairbanks and the Central area. I'm suggesting that, if projects such as this catch on in any sense, that perhaps the Permanent Fund can be helpful in improving the feasibility of such a project.

A similar project could be accomplished in Southeastern Alaska. And this is one of the concepts which was talked about many, many years ago by the Forest Service when they made their little study of the water power of Southeastern Alaska. They suggested the possibility of an energy intertie throughout the whole of Southeastern Alaska through the use of sub-

marine cables in many cases because of the rugged nature of the country. And I'm saying now, that while this concept may be slightly way out, there are developments happening in Alaska which very likely may bring such a suggestion to the fore again. But because of the Alaska conditions that exist, it's going to take horsepower to make it go and that Permanent Fund is certainly---it's going to be a device that would impact projects of that nature.

And I'm simply saying that I believe those projects are likely to show feasibility as reviewed by Alaskans. We Alaskans do have some difficulty communicating with other parts of the financial world on some of the things that are unique to Alaska. And this is an area where I believe the Permanent Fund, using good judgement ---I'm not saying do anything silly---but because there will be Alaskans involved, they're probably in a better position to evaluate the kinds of things that I've been talking about in Alaska terms and arrive at a conclusion that says it's a good deal where the general financial market that we usually look to might not be able to evaluate it that same way and thereby something might go begging that really is a good project. The Permanent Fund, to me, would seem like it could perform a valuable function in supporting some of those concepts when they develop.

I guess that's about it and I'd be---I'm intending to put a little more of this in writing and perhaps you can tell me what

portions you feel at this point in your hearing would be appropriate related to the Permanent Fund. I haven't been at any of the other hearings so I don't have the benefit of that.

GRUENING: Well, thank you very much for your interesting comprehensive statement of the possibilities of Permanent Fund participation in energy development. I think we'd like very much to have your written statement. You might include in it some of the reasons REA funding isn't possible for these projects and any more specifics you have on how the financing might work.

RUTHERFORD: Yes, I have some of that and I can do that.

GRUENING: Are there questions from the committee for Mr. Rutherford?

HAUGEN: Well, I could ask a lot of questions but I think it would be a repetition of what he said.

Principally, what you're saying is that maintaining the idea that the Permanent Fund principal will remain but, if those projects could be financed on a long term, low interest basis, the state would get its money back, it would be just

the thing in the early period that---we're using hydro only as an example---the early costs are the ones that put most of us---I'm talking about Wrangell, Petersburg area---out of business if we could have that money loaned to us on a long term, low interest basis say at an early cost of 3 or 4% for the first ten years, knowing how the state fund managers in other funds operate, they want, of course, to obtain the maximum yield.

But, farther down the road, when these utilities got on their feet, they could probably have an accelerated rate of interest. They jump it from 4% to 5% and 5% to 5½% and that of course depends on the size of the project to take. My idea was to have one that had 30 or 40 years of life which, even if we ration it out on a 6% annual growth rate, the state would still get a good return on its money in the long run.

I'm not talking about any giveaway projects, I'm talking about good projects. That if they could get this foot off of the ground and the state would get its money back, we'd retain the idea of what the Permanent Fund is. It would do all kinds of things. It would save the consumer. It would maintain the interest of the consumer down the road if we're going to displace these Mickey Mouse projects we've got now with diesel power. It's just the peaking load---you're acquainted with our problem in Petersburg that throws the rate schedule out to the point that you never

get out of the woods as far as debts are---in fact the peak-
ing power costs you more than the primary power. I appreciate
the comments that you've made to the committee and it's along
the lines I've been thinking. I look forward to some more
of it.

RUTHERFORD: Well, I say again that I believe that the
Permanent Fund can perform a unique function and I know there's
lots of ideas for the use of the Permanent Fund, so whoever
manages that fund has got a problem of spreading it around
the state in a fair and best manner---for the best interests
of the whole state.

But, when you look at the communities themselves in
general and potential spinoffs, I think the energy area is
one place where the use of that fund can result in benefits
that will spread throughout most of the population of the
state. There are particular problems related to Alaskans
and now Alaska is going to have a particular fund that's
also Alaska's. And I'm just suggesting that right there we
have an opportunity to do some of the things, that we have
a little difficulty convincing the rest of the world, that
are feasible. Through the use of the Permanent Fund, I be-
lieve you can yardstick some stuff so we can get some more

money in besides. And since the Permanent Fund can perhaps be used to really generate additional spinoffs to a lot of the communities.

GRUENING: Any questions? Thank you very much.

RUTHERFORD: Thank you.

GRUENING: Our next witness is Carl Steeby.

STEEBY: Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to be here, appear here. I do not have an entire text or anything, but I would like to offer some of my thoughts to the committee on the Permanent Fund.

I have asked quite a number of people the question what's the purpose of the Permanent Fund to see what their thoughts were when this Permanent Fund was set up and, needless to say, I received numerous answers, mostly to curb legislative spending, to help all Alaskans, to have some money left when the oil runs out and a few had the same opinion I did when the Permanent Fund was set up. It was to mainly develop renewable resources from the income of non-renewable resources, whether it be oil, gas, minerals, whatever they might be.

I was at the hearings Saturday over at the Anchorage Westward and listened to Dr. Gordon and Dr. Bergman make their presentations and, really, I couldn't agree with either one of them and their thoughts on the Permanent Fund. Dr. Bergman split her ideas straight down three different ways. She had three scenarios, you may remember. One was spend it as you get it. The other was the gilt-edge investment. The third was a development fund.

I don't subscribe to any of these scenarios, per se. I subscribe more to all of them. Not necessarily spend it as you get it. Maybe spend the income that would go to the general fund for things like parks, recreation, campgrounds, pioneer roads to the attractions and so forth.

There was several mentions of the \$900 million that disappeared. I might say that, for personal reasons, I had to leave the state from 1963 to 1973. I first came to Alaska in 1942 and have been here most of the time since and in 1963 our roads were in a terrible mess. You couldn't find a campground anywhere, you couldn't find any rest areas, you had to go by the nearest tree or anything else. When I came back in '73 we had campgrounds like no other state has that I know of. They're everywhere, there's lots of them, we need more. They're crowded. But, a lot of that \$900 million did some

good. It wasn't all rat holed as Dr. Gordon said.

On the second scenario of Dr. Bergman, I believe that we should have a portion of the Permanent Fund go into gilt-edged investments. These would be long term, high interest bearing investments that would go into our general fund, the income, and reduce some of our taxes. Everybody all over the state--- the Permanent Fund is supposed to help everybody and I think that we could reduce our taxes from the income a certain percent. I'm not offering any suggestions of what percent of the Permanent Fund should be used in gilt-edged investments. I think that would be for somebody that knows a little more about economics.

Thirdly, the development scenario, which I subscribe to wholeheartedly, is long term, low interest loans or participation loans or guarantee loans as Mr. Rutherford pointed out.

And I might say that I am an engineer with Robert W. Rutherford Associates, so I---however there is no collusion. We haven't talked together or anything. We didn't even have time to prepare a text.

But these three different methods of financing projects should be considered. Again, no giveaway program---it has to be returned to the state. And in the development, I think that we should consider first our renewable resources for these funds.

The world is going hungry now for protein. We have a lot of bottom fish. Somebody is going to develop the bottom fishery.

Who is going to do it? We need more canneries. We were flying fish to British Columbia, to the lower 43. They were telling me the other day they lost a planeload of fish flying them from Yakutat to Anchorage. We need more cold storage plants. Timber Resources. A lot of the smaller communities could develop small shingle mills, veneer plants, finished lumber. Who's going to do it? Are we going to do it or are we going to let the Japanese come in here and do it---take all of our lumber, our bottom fisheries, build our canneries. Or are we going to do it ourselves?

And, another renewable resource that goes to my heart is the hydroelectric development and I would like to say right along with the hydroelectric development, fish hatcheries. You may wonder why I combine these two, but I have worked from Kotzebue to Ketchikan and this past summer I have lived in nearly every community in Southeastern Alaska from Yakutat to Metlakatla many times. And although they had an excellent fish run this year it was a very dry year in Southeastern Alaska. There were a lot of smaller streams where the salmon were dying in the mouth of the stream because there wasn't enough water to get up to spawn. And I'm wondering what it's going to be

3 or 4 years from now when those fish that would have spawned normally came back.

In Petersburg, there is a hydroelectric plant. The water from the tailrace is utilized in the state fish hatchery. If it had not been from the Petersburg hydroelectric plant, they would not have had enough water to operate the fish hatchery. Also, fry from the fish hatchery was put into streams where the salmon could not get into spawn. So, in my way of thinking, we can build hydroelectric plants and fish hatcheries at the same time and we can go Mother Nature one better. We can do a lot of things to enhance the fisheries as well as develop hydroelectric power.

At the present time in Southeastern Alaska, the average fuel costs per kilowatt hour of energy generated is running a little over 4¢ a kilowatt hour. Nearly all the smaller communities are using diesel electric, while the largest communities are using diesel because of the front-end money. It's hard for a community of, say, a thousand people to go to the market and say we would like to borrow \$8 million to build a hydroelectric plant. Well, that's kind of unreasonable for a banker to say here's a thousand people that's come in here and wants to borrow \$8 million. They're out of their, way out of their league. Personally, I start pulling my hair out when I get my electric bill and I'm paying about 2¢ a kilowatt hour for it delivered to

my home.

And these people are paying over 4¢ now just for fuel. And in 1995 they're going to be paying over 13¢ a kilowatt hour for diesel fuel. I maintain that if you can build hydroelectric plants at fuel replacement costs at the time it comes on the line, it should be built. And I would like to have the committee really dwell on this development portion of the scenarios that Dr. Bergman set forth. And I think we can use some of the income, say, from the low interest we get on our development programs or the high interest from our gilt-edged investments to even build a few amenities for Dr. Gordon, but I would say more in convention centers and that sort of thing and not opera houses and golf courses. Thank you.

GRUENING: Thank you. Were there any questions from the committee? I just have one. My brief experience with looking at hydroelectric projects, at least explained on paper, is that they are expensive. If we're talking about a \$2 billion fund and we consider all the uses that people want the fund to accomplish---like in Fairbanks it's everything from artifacts to whales, literally, yesterday.

Buy, hydro wasn't mentioned, but I know in other regions

of the state it's probably more feasible and it's popular. But, how many projects do you think the fund could get involved in and still accomplish some of the others here. You see a limitation in terms of the number of hydro projects that the fund can get involved in.

STEEBY: Yes, that's why I brought up the three different types of financing. Possibly if you had finance money, there wasn't a demand for it, you could go in and make a complete loan package for a hydroelectric development. Now, I'm talking more---the smaller outlying villages, Dillingham, Kodiak, Petersburg, Metlakatla, Hydaburg, Klawack, where ever. More so I think than I would in actual development of Sitka.

Like I was preparing the energy cost. The rail belt area along the pipeline I feel has benefited economically from the oil and gas business. This same economic enhancement in this area has made a hardship for the rest of Alaska by increasing the wages, the prices of fuel, one thing and another that people have to pay. It has done nothing to increase the price of fish or how much a cant of lumber or something like that is going to bring in. But, still they're paying the higher prices and one thing and another. It hurts them and it is more or less, I think, helps the Anchorage-Fairbanks area.

And to make it a more equitable thing, I think the fund should be spread out and not one huge hydroelectric plant for one specific area of the state, unless there is the money available. But, if you have a limited amount of money, I would say participation. Pay a project off, a small project, say in Petersburg, maybe \$8-\$10 million. Maybe you can say well, we'll loan you \$3 million; we'll guarantee \$6 million; we'll guarantee the loan. You find the money someplace else, but we'll guarantee it. And with that guarantee, they could get a whole lot lower interest rate from somebody else. I mean, it depends on how much money you have available for the different projects and it would be a matter of allotting the money throughout the state.

GRUENING: Thank you. Are there any further questions from the committee? Thank you, Mr. Steeby. Our next witness is Peter Van Dilla, if he's still here. OK, Betzi Woodman.

WOODMAN: I have mine written up because if I were to just talk, I would spend all the rest of your hearing time because of---this subject has such broad interests. I'm not an expert in investment and management things and I won't address myself to that particular of it, except to suggest

to the committee that there be an investigation of the state bank concept, that is, and the Dakota is not going to like this, but I don't know whether it's North or South Dakota, has it. I know a little bit about it. But, I do have a statement and I'll read it for you. First I'll identify myself.

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this, our adopted home. I have been involved in numerous volunteer activities over the years and, after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer, which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent Fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented \$900 million in oil and gas lease bonuses in 1969, the last Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had---a lot or a little---the desires would be the same: to maintain that peculiar quality of life and to enhance it.

Brainstorming sessions revealed that defining quality of life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically however, accomplishing this goal would include these things:

Protection of environmental values.

Conserve non-renewable resources.

Develop renewable resources, particularly fisheries.

Provide educational opportunities which fit the people's needs and desires.

Encourage cultural development.

Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases of development---such as industrial---and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline. (That's capital letters.)

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership---you, in fact--- can

help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom, is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something, when they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So, with that for background, here is my specific suggestion:

Establish a percentage of the income from the Permanent

Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

GRUENING: Would you say that again, please.

WOODMAN: Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined later here) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facility or addition of a wing, etc.; acquisition of art works or museum material; salary for a curator or a director; assistance in re-

tiring a debt on an existing facility; furnishings for such a facility---new or to upgrade; sponsorship of a program recognized as valid for the type of facility, for example, instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representative of public interest.

To define a cultural facility: It is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of, for example, the State Council on the Arts, and its member local arts councils---always keeping in mind that the local interests get true representation. The object would not be to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and the projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuse of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 percent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in views on art of the average working person talked with 400 blue collar workers---maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study, Opinions of Working People Concerning Art. Some critics hailed it as the first "tell it like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. And this is a quote from the report. "We found that contrary to the general belief, they (man and woman on the streets) like art, enjoy it, feel it worth-

while, know much more than we (the arts world) give them credit for . . . and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps---that they act in neighborhood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeals to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an eleven-community Cultural Facilities Development Committee---and I believe you are aware of it through some appropriations to the Southeast Regional Arts Council, or beginnings of it, and I can tell you the names of the communities involved in this at present, are Dillingham, Naknek, Anchorage, Haines, Skagway, Juneau, Sitka, Ketchikan, Wrangell, Hoonah and Petersburg. And I'm on the executive board of that committee.

Now then, where was I? The preamble of that committee reads, "We who are involved in the arts know the importance of cultural facilities to the life of a community. We also

know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, (and can answer the question of young people--- what is there to do), providing entertainment, cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

"Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment." That's the end of the preamble.

If ever there were something which would contribute to and enhance the quality of life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest cities, would be the catalyst.

We can do it differently in Alaska and this is one exciting, beautiful way. And we do care how they do it Outside because that's where we learn, both what to do and what not to do. Thank you.

GRUENING: Thank you very much. I appreciated the philosophical bent of your statement. What we are really asking today, not the technical aspect. Someone said in Fairbanks yesterday, we can hire a mechanic to fix our car, but we don't ask the mechanic where we want to drive it. And I appreciated your point of view. Are there any questions? Bill?

MILES: Thank you, Mr. Chairman. I really appreciate your outstanding presentation. Betzi, while you were putting your presentation together, did you at any time at all wrestle with the problem of the income producing limitations under which we are restrained?

WOODMAN: Say it again, please.

MILES: Insofar as the Permanent Fund, we're somewhat limited to income producing...

GRUENING: She mentioned dedication of the income for this purpose.

WOODMAN: Yes. Not the main fund, but a specific percentage which---and I wouldn't think that it would be our

responsibility to figure out the formula when the management group is there just so it could be done. But it would go on in the community, you know, forever.

MILES: Thank you.

GRUENING: Representative Meekins.

MEEKINS: Mrs. Woodman, one of the questions that keeps coming up, and I think it's a good one, is why would a certain proposal be more appropriate or better accomplished through the use of the Permanent Fund than through the general fund or some of the other funding mechanisms available to the state?

The reason I think that's a good question is because I'm assuming that people voted for the fund in order to circumvent the normal funding mechanism which is through the general fund. And if we were to fund all of the needs that have been demonstrated or even the good ideas that have been demonstrated to us in just a couple of days of hearings, I think we'd end up with something very similar to the general fund, because there are, of course, a great many needs in the state and we try to address them through the normal budget process.

So, it's becoming clear to me that, or at least I'm starting to think that the Permanent Fund being used for activities that

are more appropriate to it than to the general fund and I'm wondering if you had any chance to think in those terms at all.

WOODMAN: I suppose I'd go in terms of what our experience has been in trying to get such things from the general fund. The demand for very basic economic related things has been so intense that it is very difficult to address to this. And it's kind of too bad always to have this one left over thing when I have a feeling that this---I've lived long enough and been experienced enough to realize that this kind of thing is more important than an awful lot of other things.

We use the phrase, as you know, that we don't live by bread alone, and we say it very glibly. But, the great deal of investigation into the internals of how people think and how they live---the young people's protests have been to discover that they really don't answer their needs. They are not the same.

I had the opportunity to gather a great deal of information from people who participated in "Cry of the Wild Ram" over the years at Kodiak. And this was an amazing thing. What it meant to individuals to be part of this. It had nothing to do with who came, who saw, who benefited as an audience. It had to do with the person relating to other

people. A sense of creativity, a sense of belonging, a sense of history of their area which they gained. And they were very emotional about it. They felt it had given a direction to their lives. And, you know, not everyone has ski boots or can afford them and not everybody wants to go down the mountain and not everybody can play in an orchestra. But in a cultural facility, there is a place for anybody who wants to be there. And the responsibility of course is on the community to generate how it's used. And in Naknek, the museum and saving of their artifacts seems to be their major need now. This might change over the years. In some of the larger urban areas, the dramatic presentations and the music presentations become more important.

But, I've taught school over the years. I've taught music and I've worked in theatre and so on. And it's my experience that over and over again it has been the saving thing to many a person because he found a place where he belongs and it's important to him. His community is the life.

MEEKINS: I think you make a very compelling argument for the need for these types of things in our lives. But, I guess, what you are saying because historically, you don't feel that it has been funded enough or quickly enough, or something, through the general fund, and since the Permanent Fund would allow us to, in essence, dedicate a certain percentage year after year and you

wouldn't have to continually make presentations and try to get them from the state since it would be a dedicated fund, that that would be a more secure way of funding it and that's the reason you look to the Permanent Fund, then?

WOODMAN: I think so, yes.

MEEKINS: Thank you.

GRUENING: Any further questions? Thank you very much.

STEEBY: I'd like to comment on the question there.

GRUENING: OK, well normally---we'll go out of order--- we don't like to do that---as long as we don't get involved in a debate. Go ahead.

STEEBY: Her ideas are quite a bit like mine on using the income from the Permanent Fund for recreation facilities, campgrounds, art galleries, medical centers and things. I think we're going to have to keep our taxes up to keep all of the freeloaders from coming in and, rather than take income from the Permanent Fund and put it into the general fund to maybe reduce our taxes too low, designate some of

this money for some of the more social aspects of our living.
Rather than just having it all go into the general fund.

GRUENING: I guess your only disagreement is on opera, right?

Thank you very much. I think we have time for the last listed witness, Harold Pomeroy, and then at that point I think we'll break for lunch and then it's a free-for-all. The way we did it in Fairbanks is anyone who wanted to testify next just came up and the first one to get here got it. Everyone was very gentlemenly about it.

POMEROY: Mr. Chairman, members of the committee. I was plagued in attempting to prepare testimony because it seemed to me that I didn't have anything to say that you didn't already know and I'm not a specialist or a professional in a particular field of finance. I was uncertain as to how to proceed and be useful. I decided to take a look at your preliminary report by the House Special Committee, that it might aid you a little bit in your further deliberations. I also thought that I could be most useful, if useful at all, by proceeding from my own experiences in the field in Alaska and make reference to them. I have prepared my testimony, you have copies of it. I think it well to read through it so that if there are any questions...

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The preliminary report by your committee on the Alaska Permanent Fund is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund are so complex and extraordinary, however, that enough data from which to draw well-considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

And I interject there that we are possessed of a great many illusions, a great many hopes and aspirations that are just that. For example, recently the urban conservatory conducted an attitudinal study in the lower end of the Kenai Peninsula and contacted more than half the families there. And, in asking about what the people would like to see developed, what they'd like to see evolved, 92% of them said the emphasis should be on agriculture. Well, agriculture started on the Kenai Peninsula in 1949 and it is negligible now. And however a person might feel emotionally about agriculture versus industrialization, for example, there is a large part of illusion there as there is in some of our other hopes and aspirations.

Such qualifications as I may have to appear before you

on the Permanent Fund come mostly from actual experiences.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce, and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry, would be too meager to be feasible. It looked as though importing tens of thousands or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability. Perhaps my original interest had been stimulated a little bit by a statement by Interior Secretary Hickey's in the 1930s that Alaska's future would rest on very large scale settlements of people, that is to build up population.

I was raised in alfalfa ranching and dairying in Los Angeles County and after six wearying years in Europe during and after the Second World War, the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay,

operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone. And I know of one viable farm on the Kenai Peninsula and there maybe a few more, but it is negligible.

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization, asked for a conference on behalf of peasant Russian emigres from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple lifestyle. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

The Russians were enthusiastic about agriculture and they were peasants. But we cautioned that they should be ready to do anything as agriculture might be too meager. They are now hardworking, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials just too limited.

They have been self supporting from the outset and now

have more children in their grade school than there are in the Anchor Point school. If more consumers produce prosperity, I imagine this success story is a good thing.

When the legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initiated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry nor its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high-value nitrogen fertilizer urea could be a big boost to agriculture. And now, anyone can drive his truck to the plant and have it filled with bulk urea. This has not been enough to improve the agricultural outlook.

In 1972 the legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in

remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were six more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U. S. Federal Government grants for the infrastructure required. The underlying problem however was economic feasibility---the product simply could not compete in the international market. I have heard no more of the other six just waiting to go.

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved, I have been interviewing persons at random since the end of the Cook Inlet-Kenai Peninsula oil and gas development boom---hundreds of them. The persons

queried are as varied as: truckdrivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building Supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitchhikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work, are you staying? Not one has told me that he was disillusioned and leaving or couldn't get a job. Of course this is not a professional survey, you understand and there is a great big turnover among people in and out of Alaska, but it does appear that we simply have a constant pressure.

From experiences and observations since the organization of the Kenai Peninsula Borough following the October 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of newcomers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. But it seems to me that whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment---or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax.

The property is a substantial body of copper ore which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax, the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be \$1.20 to \$1.25 per pound for the enterprise to break even. Copper on the world market was then between 50¢ and 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility, but the state would be incurring a cost of several million dollars for public services for the persons involved.

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation..." This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the Permanent Fund and everything else concerning the future.

If anyone believes, however, that we should spend as convenient as we go along and accumulate in the Permanent Fund

only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay-size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety of level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had previously been able to support. Costs in Alaska are higher than elsewhere--- for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the legislature and a "bureaucracy gone wild." There are of course always some inefficiencies, extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to "grass roots" will bring expenditures way down is deluding himself.

The upshot of the situation is that the state is disbursing close to \$1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almost total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than

pay our currently relatively moderate taxes. In fact, the report implies the probability that use of Permanent Fund money to diversify will require benefits such as low interest rates---meaning some measure of subsidy.

Taking account of the central reality of our situation one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on Page 9 of the report is an excellent statement. I would change only the second word from "may" to "will" so that it reads, "subsidies will only make sense if the loan will be supportable and the enterprise will pay for its cost." This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraph on Page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in Section B, Anchorage Times, September 4, 1977, be given close attention. It states inescapable facts, but also quotes what seems to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is quoted as saying, "In fifty years

farming and prices might no longer be marginal. It's something to plan and work for." And, "it would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry."

And I interject here, I am not against agriculture. I simply am hopeful that we will not go overboard and will not pursue a course that may be illusionary as far as its ultimate effects. And I refer to your quote in the preliminary report to agriculture as a special fund so that we can rapidly develop agriculture throughout the state. It will be a long, slow, limited process.

I had occasion to make a study on the Kenai Peninsula with respect to a proposed forage project on which the Bureau of Reclamation had spent some \$300,000 and the gas line was going to provide the heat for pelletizing the forage for the many thousands of horses and other livestock we have around here. And it was easy to find very quickly the fatal defect. It was simply that in order to be feasible from the standpoint of justifying the capital expenditure, capital investment necessary for that project, it would have had to operate 24 hours a day for something like 95 days. Well, the optimum for the production of forage, because of our adverse climate, may be only about three weeks. And that project, even if it had gone ahead and been realized with individual operators having 500 to 1500 acres of land, it would have taken

care of maybe 25 or 30 pounds, that was all.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on Page 5 of the report states, "As oil wealth declines, the Permanent Fund may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will". A qualification might include words such as, "...barring some unpredictable windfall."

The first paragraph on Page 5 touches on the underlying concept of the Permanent Fund by referring to preserving the dollars into which the oil and gas wealth is being transformed. And that's one of the most sophisticated statements you have in your report. Dr. Barbara Bergman of the University of Maryland speaking on a panel on September 10th said, "The idea of the Permanent Fund is to preserve resources for future generations." Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the fund for high return can help preserve the value of the dollar resources.

And I note here a little bit from some of the discussion so far that I think it appropriate to say that the whole concept of the Permanent Fund is rooted in economics. And there must be a purpose of a hard-headed approach from the standpoint of economics because the idea is to take this resource that has to be gotten out fast rather than spaced over 50 or 60 years because of the economics of transporting it, is to take it and put it into a form that will save it. And it will keep it up so that it can make a permanent contribution.

There is probably no more important statement in the report than the sentence on Page 9, "If no in-state opportunities exist, the Permanent Fund cannot create them." In other words, if the requisite conditions for economic viability are not present the state can't buy them. Further, as a general proposition, if requisite conditions are present, money is available and the state need not go into the financing business separately. This of course excludes some social purpose which might be deemed worthy.

And I interject here something concerning electric power because of what has been said here. I concur in the testimony presented. I concur in what Representative Haugen has said because the development of electric power, if done of course on the basis of good sound evaluation of a project and the longevity of it, can make just very good economic sense. When we started producing

oil in Alaska, oil was about \$3 a barrel. No one thought then it would be priced at \$14.60 and no one may think that it will be priced at \$30 in twenty years. I do. I think that it won't be long before it will be \$16, \$18, \$20 and more, simply because of the pressure on world wide resources. And so, if an investment is made in a hydroelectric project as in Ernie's area, for example, and it is sound, even with a moderate rate of interest, the feature that Ernie referred to of an accelerating interest rate as time goes on would still make it very, very good sense from the standpoint of the users and from the standpoint of the investment of the fund as to overall return in the long run. You heard testimony here that per kilowatt diesel fuel now represents 4¢ per kilowatt. Well, as it goes on up it may represent 13¢ or 14¢ or 15¢ per kilowatt. And by that time electric power---those projects which are thoroughly sound---can make very, very good sense.

So that's the only point at which I make observations specifically as an object of expenditure and in that connection I would say, Russ, I'm not worried about money, that is, if I had the say of what we did with respect to the Permanent Fund, because I would save a helluva lot more than \$2 billion and hope that we do arrive at that point.

This of course, referring again, coming back to the text, referring to your statement about if no in-state opportunity exists. This, of course, excludes some social purpose which might be deemed worthy enough to have attention from the Permanent Fund. Any action in this direction should be based on a clear-cut identification of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating. You know this of course, but maybe there is somebody who don't. If the state's budget is increased an average of 10% per year, the budget in less than 20 years will be \$6 billion; the 10% annual increase might be made up of 5%-6% inflation, 2.5% plus or minus population increase, the rest in services expansion. Now as to comparisons, gold production in 1976 showed a big increase over '75. If the state revenues totalled \$20 per troy ounce for gold for '76 (a ridiculously high figure, I think), this revenue would be equal to about four hours of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million barrels per day.

Recently an exuberant state official said the 200 mile limit

provides us with such a potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the official's enthusiastic figures, indicates that the revenues to the state by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet-Kenai Peninsula fields, it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years. And I note that just simply to indicate the pure magnitude of what we are dealing with.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principal. But it seems to be that we haven't made clear enough the picture as to the possible total of the abnormal oil and gas revenues---not just the revenues of which 25% must go into the Permanent Fund. Figure 1 on Page 6 of the report is a good start, but it isn't enough. I suggest there should be an expenditure chart starting in '74 or '75 and projecting on to about 1997. Of course it would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (including the pipeline tax), and the "normal" revenues, shown separately. Now this may seem like an impossibility, but I think almost anything is better than nothing so that the people can get a better picture of the whole dimension of everything with which we are dealing. It seems to me the people need to be more fully informed, if possible, in order to make value judgements on any aspect of the oil and gas revenue. More information might lead to better perception as to a basic goal for the long time future and perhaps influence a person's judgement as to "diversification" and "renewable resources" versus "investment in high yield, low risk securities", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money, is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the average of seven construction industry classifications, including laborer, had risen to \$15.43 an hour, excluding fringe benefits, by last January.

If people should believe it desirable to feed and nurture the Permanent Fund to maximum feasible size and productivity, the

result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

GRUENING: Thank you, Harold. You have obviously devoted a great deal of time and thought to this. Are there any questions from the committee?

POMEROY: Well, I just hope that it may give you some few thoughts that will help you in your consideration. You know that I'm a member of the Growth Policy Council and we are taking some of these questions to the people in a series of Public Forum meetings. I expect to spend almost my entire time in November and the first part of December in that. I don't know how good a job we'll do. It's so difficult to get enough information into the hands of the people so that they can form good judgements without the person leading the group, actually leading them and suggesting what he thinks they ought to think. We try to avoid that. We try to do what you're trying to do---

is to gear what we have to say. And thank you for listening to me.

GRUENING: Thank you, Harold. We'll return at 1:15 and try to start at 1:15 sharp. If there is anybody here that hasn't testified, I mentioned that we did do it on a kind of free-for-all basis. But if there is somebody that couldn't testify other than right after lunch, just see me.

LUNCH BREAK

GRUENING: I want to welcome everyone back to the continuation of the hearing by the House Special Committee on the Permanent Fund.

This morning we heard from several people who have various ideas and philosophies on the Permanent Fund. We just returned from Fairbanks, a one-day hearing in Fairbanks and there was a series of suggestions by the Fairbanks people. Some of it ranged from very conservative philosophies to investment in everything from artifacts to whales.

And today, this afternoon, I am as much interested from the witnesses as to what they don't want the Permanent Fund to do as what they want it to do. As people will recall, we do have a general fund in which the greater portion of our oil wealth will be going unless we change the law as it now stands. Twenty-five

percent of that oil money of course goes in the Permanent Fund. The other 75% together with all tax revenues goes into the general fund and from that the legislature decides among all competing priorities, everything from artifacts to whales, again, as to how much of that money will be spent for what.

We have a Permanent Fund which separates that amount of money---25% of that oil revenue---from the general fund and from the legislature to appropriate. Today we'd like to hear about your philosophy, how that should be treated differently, how that should be invested and how the income should be used. And I think our first witness this afternoon is Paul Brown.

Incidentally, I'd like to introduce the rest of the committee. I'm Clark Gruening, the chairman. And sitting to the left of me is Representative Russ Meekins, to the right of me, Ernie Haugen from Petersburg, and Representative Bill Miles of Anchorage and our A.A., Mike Doogan. Did any of you gentlemen have a statement or anything you'd like to say?
OK. Paul.

BROWN: Thank you, Mr. Chairman. I would like to address the issue also of the quality of life in Alaska and some of the observations that I have having lived in the state now for nine years and some of the changes I've seen that I think

are both positive and very negative in this state. And I believe that that ties into both the Permanent Fund and the larger general fund that you spoke of. Whether or not money should be used in the general fund for particular needs within the state or the Permanent Fund, I think it's probably better decided with a great deal more planning and by people far more knowledgeable with the finances of our state government than myself.

Dealing in a particular area, and mine is the---professionally ---is the producing director of the Alaska Repertory Theatre, I am aware of the continuing and changing needs within, not only the theatre segment of the arts in our state, but in a larger sense the statewide arts needs and getting even more general than that, what I come down to call my version of the quality of life.

First of all, I think that what Mrs. Woodman testified to earlier this morning relative to the vital role that the arts are playing in the development of our state is, if anything, understated. For one reason or another, and there are many theories on the idea, the arts in Alaska are more important in this state than they seem to be almost anywhere. The study that was referred to this morning on the number of Americans who appreciate, who seem to want the arts in their lives is one conducted by the National Research Center for the Arts which is an affiliate of Lewis Harris and Associates.

It was that same firm three years ago that got this what is

called an attitudinal study under sponsorship then, partly from the National Endowment to the Arts, the Greater Anchorage Borough and the Alaska State Council on the Arts. That study, which is available, and I recommend that you take a look at it, didn't ask people how many plays and concerts they wanted. They asked the people's attitudes towards the arts. What they wanted and where they felt funding should come and if in fact those so called amenities could be available or should be available only by private contributions. In general the study found out that people in Anchorage, Alaska, at least---and unfortunately there wasn't enough money at that time to do a statewide study---seemed far more sophisticated in their understanding of what the cost of the arts were, where the arts had to be funded from and even more basic, that is the needs of the arts here in our lives. I'd like to say that maybe one of the reasons it is important in Alaska is that we don't go to the beach a great deal. I think it's partly due to our climate.

There is a program, to get specific, there is a program that has been operating now for quite some time in Canada which has dedicated funds to an arts endowment. At the time the Canadian Council on the Arts was formed, millions of dollars at that time were---created a fund which then dedicated the money to the continued growth of the arts. Essentially that

money is administered by a special committee of the National Council for the Arts in Canada and in addition to the appropriations---and this is the key to it, there was some misunderstanding at the time that the endowment created---that this should replace the annual appropriations from the states and from the provinces in Canada. But that this fund which helped to develop and to continue to fund the arts does come from the earnings from the money that has been appropriated by Canada. The income is averaging something like 7¼% annually, the fund managers, because of some investments that were not as wise as they hoped they would be, are making changes and hope now that they will be able to bring that up to at least 8 1/5%. The administration costs from the Canadian Council are kept low, they are 12% of the earnings annually. It allows the arts in Canada, the various institutions, to undertake multi-year projects that are not tied to appropriated annual dollars. All grants are then made from the special committee of the Canada council.

Now, that system works in Canada and I would suspect that it might work here because it takes the administration of arts dollars away from, or at least partially away from, the year to year political fluctuations that occur in their government as of course they do in our government. The arts are not, should not be political. Apparently, too often they get political and when we have our legislature determine what is good art or what play should be

supported, then we're really attacking the very root of art, which is self-expression. And I think that every member of this committee would agree that the legislature need not determine self-expression from the people of this state.

There is a problem that exists now within the arts in this state, that is oddly enough related to at least the conventional wisdom and the rest of the country about our new found wealth. I can remember a time only three years ago when I was going in search of funding at the national level and at the national foundation level when to merely be involved in what seemed like a sound arts project way up in the frozen north would create a great deal of excitement. And there seemed to be almost a special treatment in Washington and elsewhere in private foundations in New York and Los Angeles, merely because a state that was perceived to be so backwards was interested in the development of its---of other size programs.

Just about the time that I was in Los Angeles and the day before I approached the Schubert Foundation this spring, there was a banner headline in the Los Angeles Times. That banner headline read, "Oil Companies Lose, Alaska Wins." Now the story that followed beneath that banner headline wouldn't have been a surprise to anyone. We were all following the great debate in the state as to what the new tax

revenues might be on the oil companies. But the impact that that press had---and certainly the Los Angeles Times is not the only one to blame---the national impact, rightly or wrongly, is that we have new-found wealth and that we needed to begin to look internally as to how we were going to support some of the programs that had been funded for many, many years at a federal level. What I'd like to point out to you here is that the arts are by no means an exception to the national perception that we have the wealth and we need to do more of the job ourselves. I suppose that is true and it weakens our arguments.

We have an added problem that is an old problem but it continues to be a problem. Traditionally, as many of you know, the arts in America have been funded by the wealthy, they have been funded by private foundations and corporations in a more recent time, but by people in the private sector who had the money to make up the difference between what the arts could earn and their actual cost. Alaska is a late entry into private wealth. There is, as you probably know, only one private foundation in this state that is active. It is a small foundation and has disbursements of roughly \$65 million a year for all programs. It does support the arts. It cannot do the job alone.

What I'm suggesting here is an idea for an endowment to the arts is certainly not for the state to take over the role of the small amount of private money that is available or the corporate

contribution which has been rather generous, particularly since at least the advent of the oil companies, but rather to increase or hold out the carrot for further private contributions to the arts. If an endowment were created by the state, it certainly could be created in a way that would encourage further private corporate donations to that endowment. I certainly don't think state money should ever replace what is available to be raised from the private sector, nor should it decrease the interest on the parts of those of us who manage the arts in the state in the potential for earning. I think it is first and primary that the arts try to earn every bit of the income that they possibly can, but that we cannot hamstring them with impossible tasks that we are now beginning to do.

There is no question that the audience exists. And to use the statistics that are quite familiar to me because I use them all the time the first session of the Alaska Repertory Theatre, the state's first professional company, drew in an audience in Anchorage alone of over 20,000 people in its very first short season. In one week's time in Fairbanks, we drew in an audience of nearly 6,000 people. Because of limited funding, as a matter of fact because of state funding, not so much by the legislature but by the administration, the statewide programs that have been envisioned in the inception

of this organization have yet to be realized.

I'm going to get away from the arts in particular and make one other suggestion that this group might look at. We have seen, and particularly in Anchorage and Fairbanks, the loss of the character of both of those towns due, at least partly, to development. I hate to admit it, and I say it sort of embarrassed when I'm outside---my friends, because my love of Alaska exists or I wouldn't be here---but Anchorage distinguishes itself as certainly one of the ugliest cities that I know of. The reasons for that are numerous. But what there was in terms of a character in this city, and I think that this is probably true certainly in Fairbanks and maybe elsewhere in our state, has been lost. We have scattered development, we've had to build quickly in order to handle this tremendous oil boom that you are now trying to decide some of how it's benefits should be spent. There is no program that I know of that it's going to encourage the small businessman. It's going to encourage the commercial side of this city to invest in what the aesthetics might be of their businesses. And I'm talking about the improvement of the exterior of buildings. Spending the extra dollar with construction costs as high as they are to take into what is not considered important because of the economics. The architectural considerations. We are probably sitting in the building in Anchorage now that distinguishes itself above all others architecturally and it certainly isn't going to win any awards

anywhere. And of course it was built by state money. Maybe the Permanent Fund needs to address itself to the changing character of Alaska cities and maybe there has to be some incentive from, again from earnings from the Permanent Fund, to encourage business and local government for that matter, to turn the urban areas of both, particularly Anchorage and Fairbanks---and I single them out because they are the only communities in this state that qualify as cities, at least by outside standards, and have more of the problems of cities---into making this a better place to live.

We no longer have the tiny little pioneer towns that they once were. We're going to build urban areas. We read reports that Fairbanks will be 70 and 80,000 people before too many years and that Anchorage will go up over a quarter of a million people pretty soon and 300,000 by 1985 or 1990. I'm interested, and many other people are interested, in what those cities are going to feel like. What are they going to look like. What are they going to be like to live in as they are in real cities. Is there some way, is my question, to turn some of the state's resources, through the Permanent Fund, into the encouragement of---so long as we're going to have cities---building cities that are far more pleasing for every Alaskan who lives in those cities or everyone who visits those cities to be in. Thank you.

GRUENING: Thank you, Paul. Any questions from the committee? I take it, Paul, that you have at this time no comment on the actual investment of the fund. Your comments relate to possible dedication of the interest or earnings in the fund.

BROWN: That's correct. I think a great deal more study would have to go on to determine specifics.

GRUENING: Thank you very much. I appreciated that. Is there anyone at this time who would like to testify?

WILSON: I wasn't really prepared to make a statement today. My name is Richard Wilson and I'm working with a citizen's group in Anchorage which is called Breakthrough and I'm one of the volunteer participants. My job happens to be the local financial resources to pay for various improvements, some of which the previous speaker referred to. I'd like to broaden my concepts into a much more Alaska-wide framework.

The first thing that strikes me when I look at Alaska is that we have a state that is going through tremendous change, rising aspirations in terms of the services the government provides, in terms of the amenities of life. Everything from electric, dependable electric, service on through to cigars. We have so many wants and the presence of a Permanent Fund is so all pervasive that the

two have got to clash or be reconciled in some way. And I think the thing that I would---my suggestion to the special committee would be on behalf of Breakthrough---and really on a statewide basis is to---not to preclude the possibility for utilizing these funds for purposes of community improvements.

I noticed in the publication that the committee put together, the green-colored publication, one of the possible strategies for use of the funds mentioned was the assistance for local capital improvements or municipal projects. One of the things that struck me is that under the possible implications column on Page 9 you find that almost all four of them, three out of four, are more or less of a downplay implication. In other words they do not really say positive things about the idea. And I think that may well be true. One of the comments was that it was not a good rate of return to the Permanent Fund to subsidize a municipal electric system, for example. Where they had no electricity previously. Other investments would bring more money back to the Permanent Fund. But in terms of the broader social purposes to which I think this fund has to address itself, this committee has to address itself. The net return to the fund can be maintained and yet you can apply some of the fund to worthy community improvements, that not be a high rate of return, but are, you know, of long run appeal kind of investment.

I would like to give an example, just along the these that was employed this morning by several speakers, the energy theme. Energy conservation wasn't mentioned. I think perhaps this is one of the fields that should be explored. For example, every community, every city borough in the state has municipal facilities. How many are begun in such a way as to conserve energy---get the maximum energy efficiency possible. Well, maybe one of the best investments that could be made is, and on which a return is possible, is to fund a refurbishing of the municipal facilities around the state. You can naturally cost out and project out the savings in energy costs over the future as fuel costs rise and you can do this in conjunction with the various demonstrations and pilot projects that are proposed by one of the earlier speakers this morning. Mr. Rutherford. such as your wind power and hydroelectric.

But, here's an example of a community improvement that may produce a long-term benefit to the citizens of this state. Economic as well as social. And I think it should be considered and not precluded by the committee. And the list of examples is endless and I won't go any further.

I think the point is that we have an existing and growing demand around the state, as Mr. Pomeroy mentioned to me over lunch. The Alaska Public Forum, various hearings around the state, produces an almost unanimous feeling that what the fund really could be useful for is funding community improvements.

Whether they be a hydroelectric facility or a library. And given this really felt need around the state, I think the legislation should be written in such a way as to be broad enough to authorize the use of a certain proportion for these purposes and I think this is a statewide need and that's about all I have.

GRUENING: Thank you, Rich. We appreciate your comments. Are there any questions from the committee? I only have one. I believe your profession is investment counselling, is it not? Or what is...

WILSON: Well, it's municipal finance and community planning and development. I'm consulting with municipalities and boroughs and hopefully with the state in certain circumstances to basically achieve a more efficient use of public funds.

GRUENING: Now, we heard from consultants who recommended against the Permanent Fund getting into bonding, purchasing bonds because the income is generally lower. Although it's tax-free, the Permanent Fund being a government institution, a public institution, will have tax free earnings anyway. It was suggested we get into some of the other areas that are higher and I'm interested in your thoughts on that and the

thought that once you start devising various ways to invest the fund that involves social implications, you, what you are doing in effect is allowing certain subsidies for certain classes of people. Then we have an accountability and an equity problem. To what extent do you feel we could solve that problem so that the most benefits get derived? Is that the thrust of your testimony? That through city or municipal improvements you reach, let's say, the division of the assets of the funds in a more equitable manner if you distribute it that way?

WILSON: I think that is one of the points I would make, yes. And I didn't make it specifically, but that is one of the major points, I feel, to consider by the committee. If you ask me what I thought the purpose of the fund were, I would answer it is to maintain a nest egg for the future. In case, for that rainy day in the future. It's constitutionally required. But the constitution does not preclude a net return to be maintained. And what I mean is every investment that is made doesn't have to be the highest rate of return. It is only the net return on all of the investments, whether they are high, medium or low, or even lost subsidies in effect. Just so that the net return is positive and you make money. That's what I think is the constitutional requirement. Given that, I think, it's only a question---and

given the fact that you have demand for services that is existing, and you as elected officials must feel it every election. We need to do this. We need to do that. We're talking about facilities, we're talking about municipal improvements. And this pressure will maintain itself and it will grow. The question is, in what form can that assistance to help those community improvements be funded take without producing a net loss.

Basically, a small proportion should be the limit. And I think that one of the things that I would propose is that the committee consider utilizing a decentralized system of decision making for those investments that aren't intended a net high return. Decentralize that part of the process and centralize the profit making part.

GRUENING: OK. Mike, do you have a question?

DOOGAN: I just want to make sure that I'm clear here. You are saying that your interpretation of the constitutional amendment will allow a certain proportion of these investments to be made regardless of whether or not they were income producing. That is, that you could make investments even though you were going to lose some money?

WILSON: No, I didn't say that. I don't think that we should go into it with the idea of losing money. That concept is---it's not the right way to say it. The word subsidy was used in place of that. And I think there is room for certain subsidies to be made within the confines of that constitutional requirement, but a very small proportion of the total investment. Out of---2% even, just to take a figure out of the air. I haven't studied that part of it. Don't hold me to a figure. But it's possible that the net return could be made even though you do subsidize certain investments. And it is---the question is which do you subsidize? And in analyzing the relative net benefits and costs of each form of subsidy is a tremendous task we have before us.

GRUENING: Thank you. Are there any other questions from the committee? Thank you very much. If there is anyone, because of time that wants to testify right now, we'll take another witness. Otherwise, we'll take a short break. If there are no further witnesses, we'll get home and get some rest before we go to Kotzebue tomorrow. We'll take a five minute break.

BREAK

GRUENING: Call the meeting of the House special committee back to order. We have a witness, Mr. Bob Posey, who would like

to give us some of his thoughts.

POSEY: Thank you, Mr. Chairman. As a long-time Alaskan, I also am quite concerned about quality of life in Alaska and this afternoon we have heard some comments about the importance of quality of life here in Alaska. One of the things that all long time Alaskan's remember, though, is that for many, many years, the only employment within the state was by the government. Everybody was either on the government payroll or worked in a service industry that provided services to those who were. I believe that any investments of this fund should take into account that we should keep Alaskan residents employed.

I notice here in your report, preliminary report here, that you published, that we talk about risk. Well, I have an answer, I think, to that question which you raised. There has always been risk in Alaska. The people who came up here in the gold rush were taking risks, there was no guarantee. The farmers who came to the Matanuska Valley were taking a risk. There was no guarantee. There are many people here in Alaska today who took a risk to come here. There were no guarantees. We have a wonderful state, we have a dynamic state and dynamic people here.

But, unless we look to the future, it's entirely possible

that our children and our grandchildren will not have jobs because it's entirely possible, in fact it is even probable, that when the oil resources are depleted, the oil companies are going to pack up and leave. They are under no obligation to stay here. And I should hope that we would have built Alaska into some type of business or industrial base to where we will have jobs for Alaskans in the future. That's all I have, thank you.

GRUENING: Thank you, Mr. Posey. Questions from the committee? Representative Meekins.

MEEKINS: Mr. Posey, I agree with your statement quite strongly. I've been concerned about exactly how is the best manner of going about that. One of the problems that we've been confronted with on this committee is that our consultants tell us that if we go on a program to increase jobs directly that, because of legal problems with limiting those jobs to Alaskans, and because the labor supply that Alaska utilizes is basically all the rest of the United States because they can move up here and they have. If you're a long-time resident, you certainly know that. Then, how it is we can give this benefit to the people that need it the most? We want to give it to the current residents of Alaska. What they're saying is that we won't have any effect on unemployment, we might increase it because of the number of people that

come up. And they may be in fact, compete successfully against residents for jobs that are in existence currently.

POSEY: There certainly is that possibility and we have a recent trans-Alaska pipeline project to look back upon. I think probably one of the answers to this is that, if we encourage Alaskan industry that, rather than use the fund to develop jobs directly or to do training directly, that there are monies available from the federal government which we receive in this state at this time for training programs. The native corporation certainly has a certain amount of money. I would hope that some of their funds would be used in developing training programs within their various regional areas.

MEEKINS: One of the suggestions we've had to get around the constitutional problem of Alaska hire provisions is that the state participate in large scale development similar to the pipeline---maybe not quite that large, but whatever large scale developments might be going on in the state. That the state participate in those at least enough to get a contractual agreement by the owners of the company that the development hire Alaskans first. And that would be in fact legal and get around the constitutional problems that we have. Would

you favor such a use of the Permanent Fund?

POSEY: Well, that's certainly a possibility. The only problem with it is that it's only a short-term solution. We are interested here in the long-term possibilities, the long-term effects of what we do today. I think one particular pet project of mine would be the state participating in hydroelectric projects because this will not only create certainly a large number of jobs during the construction phase, but having relatively available and hopefully inexpensive electric power within the state is going to encourage development of industries throughout the state, or at least throughout those areas where electric power is available. And the state is certainly going to benefit no matter who is employed ---we hope that it's going to be all Alaskans. I think certainly, probably a major percentage would be. But the state is going to benefit from the increased revenues that we have, not only in individual income tax, but the business taxes.

GRUENING: Any further questions? Mike?

DOOGAN: You sort of addressed my question in that last statement, but, if the Permanent Fund is to sponsor development which in turn can be supposed to bring up at least some additional people from outside to live in Alaska, that it in itself would create a

demand on government services that would not otherwise exist and particularly at a time when the residents of the state seem to be against spending in the public sector. Have you given this any thought? Do you think that the revenues generated through personal income tax, which for instance is relatively low and stable at this time, would pay for the services demanded by the people who came up? Or would we need to increase the level of government spending from oil resources?

POSEY: That's a good question. There's an old saying, in effect, that there is no such thing as a free lunch. I think part of our problem is that we are deluding ourselves to a certain extent in that government services cost regardless. We're going to have to pay for them. There are many places, one example is Delaware. Throughout the state, other than in their major cities, they have volunteer fire departments which bill the people on an annual basis. So, no matter what services you get, you have to pay for them. If people within the state of Alaska want the services, they're going to have to be paid for. How it's paid for is going to be up to the voters.

GRUENING: Thank you. I'd like to ask a question I think every witness may want to examine. What do you think

is the primary purpose of the Permanent Fund. Why do you think we should have one?

POSEY: Well, quite honestly, I voted against the Permanent Fund.

GRUENING: Then tell us why you think we shouldn't have had one. That might be instructive.

POSEY: I can understand, I think, the reasoning behind it and it's to help keep the money in Alaska and make some long-range benefit to Alaskans from the oil revenues so it won't just slip through our fingers as monies have done in the past. My primary concern about the program is the possibility of mismanagement. It scares me to death to think that this money can be mismanaged. I think that as long as we have the proper safeguards within this that that possibility diminishes. But this is always going to be there. When you have large amounts of money to be managed by a group of people, there is the possibility of intentional mismanagement and deliberate mismanagement, but then there is always the possibility of human error. It is going to exist.

GRUENING: As you are probably aware, the general fund now is managed by the legislature and the executive to the extent that

we make an expenditure, the legislature decides who gets it and how much and generally the governor through his staff and departments administers that money. Do you think that there is a greater potential for mismanagement there or one for the fund?

POSEY: That's a very hard question to answer. I think it's probably a toss-up at this point in time. As I said before, there are no guarantees. I think we have to, now that the decision has been made to establish the Permanent Fund, pick up the ball, as you gentlemen are doing, and run with it and do the best we can.

GRUENING: Thank you. Are there any further questions? Thank you very much Mr. Posey. I notice a few people came in the room. Ma'am, did you want to testify? Representative Osterback is here, would you like to join us? We'll be a little while longer, I think. Do you want to be in the audience? We've got fewer of those than committee members.

OSTERBACK: Do you want me to join you?

GRUENING: It's up to you. Great, we'd love to have you. Would you state your name.

WOOSTER: I'm Marjorie Wooster. I live in Anchorage. I represent a group of people who are interested in developing agriculture in Alaska.

GRUENING: I think I received a letter on wheat from you. I hope you received our reply.

WOOSTER: Yes. I received your reply. Thank you. However, it's always good to reinforce a letter. What the gentlemen was saying about looking ahead to the future we are very much in favor of. Money is money. We just can't eat it. What we hope will happen over the next 10 to 15 years is that agriculture will really be stressed.

There has been many views on how the world should feed itself and Schumaker, one of the economists, recently passed away, said that each large metropolis should have surrounding it a number of farms to feed it which would cut down on transportation and so on.

Well, Alaska is in a delicate position as far as food is concerned in the world in that we ship in most of our foodstuffs. And we would certainly like to see a change in this status in the next years. The Permanent Fund money is helping to establish and---farmers can farm, but a lot of processing marketing that gets in an area where there is a big lapse, and Permanent Fund

money can help there in just establishing those areas of processing and marketing. We feel that way. And that's part of, that's what I wanted to say.

GRUENING: Well, thank you. We had an interesting observation in Fairbanks. They were quite interested in agricultural as well and I asked one witness why she felt that present agricultural loan fund was failing, at least it appeared to be not accomplishing its objectives in terms of where agriculture is and the loans were in default. She felt that the loan program was mismanaged, that the loans were given out on a favoritism basis. And, of course, she felt that the interior wasn't getting it's share. Do you have any reflection on what we are not doing and what we are doing that seems to keep agriculture in its kind of poor stepchild kind of industry?

WOOSTER: When I grew up in the valley, there was a lot of farming going on. And last year, I talked to an Iowa farmer who was taking a trip around the valley and said there was many fields laying without being turned over. And I think the farmers are being outpriced, you know, by developers. And another thing, in my opinion, there is no cooperative area where they can---some of the potato farmers have gotten

together and made a market for potatoes, but a pea processing plant came up a few years back, folded. I have a friend who started a freezing plant up there and just ran out of funds, and I believe it has almost bankrupted him. And some of these ---a lot of it is just getting started. Once a process gets rolling and this is where the Permanent Fund could help to get the system started, then they can use the fund to put the produce into the economy.

MEEKINS: I think that is the important part you just touched on, is that---I certainly would like to encourage agriculture and we may end up doing that---but the question is, of course, if it's just, it needs a little push to get going, that the Permanent Fund could help it and then it could eventually sustain itself. Then I think it is an appropriate consideration. But, I'm wondering, as you said, so many of these things folded. Is the reason is that it is just not economic or because they just needed a little more investment money and couldn't obtain it or something?

WOOSTER: This was the case in that freezing plant, I know that. That he ran out of his own money, couldn't find financing and those freezers sat there for a long time.

MEEKINS: But you feel it could have made it if it had some sufficient backing and then sustained itself?

WOOSTER: Yes. Yes. Surely, a large freezer plant for all the vegetables in the valley and then it could be put on the market if it was time for them and so on. Holding is very necessary.

GRUENING: With, say, adequate capitalization, do you think the products of the valley would compete, let's say the massive agri-business or farms of the lower 48?

WOOSTER: I think we'd have to stimulate "Buy Alaska First". Instead of looking for---I know Totem eggs are a lot different than the eggs sent up from the states, I mean you can't compete---\$1.25 for Totem eggs and they are what, 80¢, 90¢ for the others. So naturally people buy the other ones.

GRUENING: Aren't they forced to do so, I mean the prudent homeowner or householder is going to stretch the budget as far as it'll go. I mean, "Buy Alaska" may be a couple of cents difference, but isn't there a point at which patriotism will not go?

WOOSTER: We may be forced into feeding ourselves.

GRUENING: You are saying that the transportation systems may fail?

WOOSTER: I'm saying energy altogether---there's an article in the December Reader's Digest, I'll refer to it so that I don't get anything wrong. This is a five page ad and it's bought by Americans for Energy Independence. And the title is, "The Energy Shortage Could Bring Starvation - Have you Ever Thought of That?" Well, we've been looking at this since the world food crisis back in the early 70's. And, where is Alaska fit into the scanner? We have to feed ourselves. I think it is a must. And everything is shipped in here. That's put a higher cost on everything. I think we have to. There is no doubt about it.

MILES: What percentage of Alaska's current population, can you guess, would their agri-products be?

MEEKINS: Four.

MILES: Four?

WOOSTER: Did you say four?

MEEKINS: Four percent. That's what the testimony was yesterday.

WOOSTER: Now, with stimulation, it could change, you know, to 15 or 20, I'm sure.

MEEKINS: There was some interesting testimony yesterday. It said that we had in the state at any one time only a seven day supply of food.

WOOSTER: I'm sure that's true. If you had been here during the strike, you know how delicate the situation is.

GRUENING: Mr. Osterback, I think had a question. Go ahead.

OSTERBACK: Mr. Chairman, you know, I brought up this about transportation out on the chain. It's not that many people, but I would think, they use a lot of produce. And to get produce out of Anchorage you have to pay 38¢ a pound. If you bought a sack of spuds and you want it shipped out real quick, it cost you \$38 on a 100 pounds of spuds. That's why I brought up this fairy tale. They say, why don't you order your stuff on the ferry from Seattle. It takes them

about two weeks to get up here by the time your fresh produce comes up through the chain, the food is spoiled. You'll feel a head of lettuce and know what I say. If we could get a ferry system or some kind of freight transportation from here, everybody would buy from them. The valley up here.

WOOSTER: Or establish some controlled environment agriculture. Now there has been a good experience down Soldotna way. There are some quick-growing products, but a controlled environment type of a---in a building say, you know, could help feed an area, cut down on costs, once the initial cost is spent.

MEEKINS: One other thing I'd just like to comment on is that yesterday we had a great number of people testifying in favor of---a great number compared to how many testified, only three or four probably---but in favor of agriculture and we always noted to them that there is a renewable resource development fund.

WOOSTER: We know that.

MEEKINS: OK. And I just---just for informational purposes ---because it in fact for agriculture in some respects is much more appropriate than the Permanent Fund.

WOOSTER: Now that's for growing, right? That's not for processing and marketing.

MEEKINS: Well, it depends on who you are and how you look at it.

GRUENING: Are there any further questions? Thank you very much. I notice there is one gentlemen who hasn't testified. Do you have any...? OK. Thank you.

I don't see any point in waiting for the next witness. So with that, we'll call these proceedings closed. We'll have further meetings in Anchorage. For those of you who haven't picked up a copy of this booklet, please feel free to do so.

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Proceedings
of
The House Special Committee on the Permanent Fund

PUBLIC HEARING
September 14, 1977

~~Anchorage~~
Fairbanks

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

GRUENING: I guess we're all plugged in, and we can start. I really appreciate seeing some familiar faces and some unfamiliar ones here on this blustery morning for the hearing on goals for the Permanent Fund. I'm Clark Gruening, the chairman of the House Special Committee on the Permanent Fund. Starting from the right is the A.A. to the committee, Mike Doogan, whose newspaper background--you might have seen some of his work; coming down the line is your Representative Sally Smith; and LouAnn is the secretary to the committee; Representative Russ Meekins, a member of the committee; and Charles Parr, who is not a member of the committee but certainly will have a lot to say on how legislation affecting the Permanent Fund is devised.

This is going to be fairly informal today. We don't have a list or order. I think just raise your hand if you want to testify. We'll just pick one; you come on up. We want to have plenty of time for questions and answers. If it works out, we may allow a question from the audience of a witness as well.

We certainly want to hear what you have to say about the fund. What has struck us in dealing with it is that there are already established in state government a number of loan funds. Sometimes we hear--I've heard everything--I see that former

Representative Tim Wallis is coming in--we've heard everything for investment of the fund from artifacts to wheat. In examining it, we notice that they're already in existence state loan funds, which, at least statutorally, can deal with the kind of investment that people have stated they'd like the Permanent Fund to get into. So one task of this committee will be to examine where those loan funds have accomplished their goals and where they haven't. In other words, if you have a program you think the fund ought to take up, we ought to see whether there's an existing loan program and see what it's done to further the need of investment.

I'm just as interested, and I think the committee is too, in what you feel the Permanent Fund ought not to do as well as what it ought to do to the extent that you devise a very complicated system for the Permanent Fund, it'll be harder to achieve the goals.

With no further ado, unless any of the people here of the committee or the panel want to make a statement, we'll just start. Who would like to be first can raise his or her hand. Tim Wallis.

WALLIS: Mr. Chairman, members of the committee, for the record my name is Tim Wallis, president of Doyon, Limited. I would like to take this opportunity to thank you and the committee for traveling to Fairbanks to receive public input on the Permanent Fund.

In the early stages of the creation of the Permanent Fund, at which time I was a member of the Legislature, I opposed the creation of the Permanent Fund. After further consideration, I changed my position and voted for the Permanent Fund legislation that was vetoed, and voted also for the constitutional amendment for the creation of the Permanent Fund. As a result, comments or criticisms that I make now or in the future, I hope will be taken in the manner that I am trying to assist in establishing a workable Permanent Fund. Doyon, Limited has spent considerable time and effort to examine the proposals for the Permanent Fund. Because of other pressing issues, in particular the D2 issue, I am not fully prepared to comment on all aspects of the legislation. With the committee's permission, I intend to submit further testimony at a later date to become part of the committee's formal record. Also, I would intend on talking to you and other committee members on an individual basis as a Permanent Fund concept winds its way through the legislative process.

There are a couple of points I would like to make for the committee's consideration at this time. First, I recommend that the legislation be structured so that the maximum amount of leverage can be obtained from the prudent use of the fund. Certainly the same leverage tools commonly used by the private sector money managers should be available to

the managers of the Permanent Fund. There are at least four ways that increased leverage that can be accomplished in this legislation:

First, the fund should be permitted to purchase equity securities. This would permit private venturers to raise more funds from the private money market than might otherwise be possible.

Secondly, the fund should be authorized to subordinate its loan position in favor of private borrowers in large scale private development projects. Subordination is a time-tested tool which can be invaluable for Alaskan development projects when exercised with care by fund managers.

Third, the fund should be permitted to participate in syndicated loan arrangements. Once again, this is particularly important in the case of large scale projects.

And four, fund managers should be permitted to make loan guarantees. Loan guarantees by the fund would increase the debt capacity of Alaskan borrowers immeasurably. A debt guaranteed by the fund could be used to attract private money at favorable interest rates at no direct cost to the state. Such favorable interest rates might even make marginal projects feasible, or reduce the risk premium for high-risk projects.

It seems to me that a primary objective of the fund should be the attraction of private capital to Alaska by using these

tools and perhaps others, the fund could become a dynamic force in improving our state far beyond proportion to the fund's size. I encourage you strongly to give the managers of the fund the widest possible discretion in using tools to increase the leverage of the fund to attract private capital. It appears that great discretion will have to be placed in the managers in any event, since they will have custodianship for a billion dollar plus fund. It only makes good sense to go one step further and give them the same kind of investment tools that responsible money managers have in the private sector.

My second point will be brief. I believe the portion of the bill calling for a possible investment of 30% of the fund in "community development projects of municipalities and public corporations" may need to be spelled out in more detail in the statute. If that sizable portion of the fund is going to be available for this type of investment, the definition of community development projects should be broadly construed.

For example, in many large scale private development projects many quasi-public facilities such as roads and health care centers must be constructed. I believe that some fund monies should be available to private firms constructing these quasi-public facilities subject to conveyance. This section would permit private companies which must construct

quasi-public facilities access to the fund. Certainly many safeguards could be built into the administrative organizations which would require that these quasi-public facilities so financed would be available for public use at some specific time. I recommend the broadening of the language of the legislation to include public-type investments by private companies. The current language limiting investments to municipalities or public corporations is too narrow and unduly restrictive. As I indicated at the beginning of my remarks, Doyon, Limited will have a more detailed proposal at a later time.

I am certain that within the next few months a constructive and imaginative bill can be drafted to meet the manifold needs of Alaska's economy. Thank you, Mr. Chairman.

GRUENING: Thank you, Tim. Can you stay a minute for a few questions, if there are any? I appreciate that comment and I think we would like to hear more from you and especially anything you can give us in terms of experience that Doyon has had.

I think, as one of the largest native corporations, that probably it has gone through the ropes of trying to develop viable economic enterprises within its regions. To that extent, it may be parallel to the Alaska experience. Are there any questions from the committee? Mr. Meekins.

MEEKINS: Tim, I don't know if I understood it correctly; but when you're talking about such things as roads and other types of projects, do you have in mind the roads being the kind of project that would make a return to the state, which is a limitation on the fund--you have to make a return. Historically, we just appropriate money directly to roads and they're built, and they don't return anything, because they're not toll roads, so there's no return on the investment. Is there some financial mechanism that could do that?

WALLIS: Indirectly. I'm trying to think of an example-- I guess would be--in any large scale mining operation, the possibility of perhaps a new community will be established. Part of that community, of course, as any community would be access. So you would need to build a road to and from as well as...

MEEKINS: I suppose the fund could buy bonds from a municipality or any incorporated entity that might build roads and other infrastructure type things. But, I think one of the things we've run into is that in the state of Alaska, especially when you deal with the rural areas, and

I'm sure you're more familiar with this than the members of the committee, but in thinking about this we've found that a lot of the problems are that we don't have the infrastructure. We don't have the roads. If you're going to make an investment in some area, you can use the fund monies to provide a loan for something in the rural areas; but you can't use the fund monies to build a road, or at least it's not very easy to do so. So we need some other type of maybe additional investment from the general fund or something else to provide transportation in some of these areas, if you are talking about developing certain areas of the economy.

One of the things you might want to comment on later would be one of the things we've thought about in this area in regards to renewable resources, like fishing, agriculture, or anything like that, is that the Renewable Resources Development Fund can directly appropriate. That fund, which, as you may recall, takes the same revenue but only 5% of it instead of the 25% and puts it in a special fund which is separate from the Permanent Fund, which can only be used for the development of renewable resources. So that type of a fund could be used in concert with the Permanent Fund--one to build the infrastructure and one to loan money for a development project--at least that's possible. I'm not sure that it's a good idea, but it is a possibility that you might want to

consider in your further testimony written comments.

WALLIS: Thank you.

GRUENING: Are there any further questions? Incidentally, I'd like to invite Representative Carpenter up here if he'd like to sit with us and ask questions.

Tim, I'm curious. Someone mentioned in Anchorage about the parallel, the possible parallel of the Alaska Native Settlement Act with the Permanent Fund. As I understand that act, Congress wanted to mandate some dividends be paid out of some of that money, feeling that some of the present generation of Alaska natives would not benefit from the bill, unless some immediate money was shared and shared equally.

Applying that to the Permanent Fund, is there a possibility that when you establish a loan program, only certain people qualify for loans? As I understand some of the, say, rural Alaska's opposition to Permanent Fund was that they felt, as is the case with some of our loan programs, the urban areas would get most of the loans. That problem still exists to some degree. Is there any feeling do you think, for establishing a way that the Permanent Fund through payment of either dividends through Alaska, Inc. or say, through an annuity pension program could give out at least the earnings

of the Permanent Fund to every Alaskan so that there is some equity involved in terms of that state money? Does that have any appeal to you personally or does that make any sense?

WALLIS: Whenever I get free money, it appeals to me.

The Alaska Native Land Claims Act, I think perhaps, is a totally and completely different street of legislation. I think the Permanent Fund and its establishment and what the voters were looking for basically was the basis, the catalyst, which would give Alaska financial independence. If the fund was able to do that, and flexible enough to do that, the dividend aspect I don't think at this point, and I may change my mind at any time in the future, I would say you may want to look at other areas which affect people such as property taxes, income tax, and this sort of thing which would delete, reduce, or whatever. That'll lend the dividend to an Alaska, Inc. concept. Again, I reserve the right to change my mind.

GRUENING: I do the same. I find out I learn as I go along.

WALLIS: If I may, Mr. Chairman, just for a moment add this, I would recommend, perhaps, however it is to be done, the attorney general has a view and some other people have another---would be to

increase the 25% amount into the Permanent Fund up to at least 50%.

Also, the important thing in the creation of the administration of the Permanent Fund, I think, perhaps should be looked at carefully. You could find that in administering the Permanent Fund, it could become very political in the sense that you have a board, trying to get away from the political aspect of it, you have a board and a commission or your loan review committee, then you'd have that, then it gets that political overtone, where somebody is more influenced to get the loan and the guy next door couldn't get the loan, and as a result his project went down the tube. Establishment in working, in creating the whole organization, I think, needs looking into.

GRUENING: I agree. That's one of the more difficult problems--how you insulate it and at the same time, not make it so insulated from policy that you, let's say, have a fund with this amount of money doing investing in, someone suggested pickled sticklebacks, something that is doing nobody any good. There has to be some review function. To do that and separate it from, let's say, political favoritism is difficult. Did you have a question, Mr. Doogan?

DOOGAN: I do. Mr. Wallis, has Doyon found that there is a lack of financing either in the private or the existing public money markets for projects that would be economically viable if that financing was available?

WALLIS: To an extent that depends on what amount of money you're talking about. A large amount of money that we're talking about in the Permanent Fund--we haven't gone after that much money. A small amount of money that we have had before puts you in a position to get favorable rates.

GRUENING: Thank you. Any further questions? Thank you very much, Tim. Hope to be talking to you again. Mayor. Incidentally, if you could state for the record your name.

CARLSON: Chairman Gruening, distinguished panel, I'm John Carlson, mayor of the Fairbanks North Star Borough. I wish to personally thank you for the opportunity to allow the citizens of Interior Alaska to speak up on how they feel about this Permanent Fund.

I think the proper utilization of the Alaska's Permanent Fund can become the single most important decision that Alaska political leadership will ever make. In most national political

decisions in that arena we have hardly very little effect on some of the decisions that are made in Washington, D.C. We certainly hear the important decision on a Permanent Fund and that we can have a say in and certainly guide to properly apply benefits to all of Alaska.

The use of the Permanent Fund and other royalty funds are to build Alaska's economic future. My own preference is we use the oil and gas royalty income and Permanent Fund leverage to establish a sound economic and cultural base for Alaska.

Specifically for the Interior, our future is tied to expansion of our transportation system. In discussing the potential here of oil and petrochemical development and any other development, it always comes out the problems that we have for transportation, that's the greatest liability for development of a sound and stable economy in interior Alaska. Our airport and our highways should be expanded and certainly the development would follow. A person cannot get out and the parks and the recreation facilities in interior Alaska without some mode of transportation, whether it be by air or by road. If non-renewable resources are used, or developed I should say, this would not encourage the development of the Interior, where the renewable resource development, such as

agriculture, would certainly develop and enhance the interior Alaska.

The worst would be to build expensive office buildings as a monument to political efforts of bureaucracy and the other use as a drain of our resources rather contribute to our economical or cultural stability.

I realize that Permanent Fund must be used in such a manner as to be permanent. However, low interest loans to aid in establishing better transportation system is a common factor and addition prime loans, tourism loans should be built upon. Once established, these industries would aid in getting interior Alaska out of the government dole, reliability upon government because we would develop a stable, an expanding economic situation or base here in interior Alaska. I want to thank you again for the opportunity to speak a few words to you and commend you on your all-out effort travelling throughout the state and getting the information from the citizens. Thank you.

GRUENING: Could you stay for a few questions? Any questions from the committee? I have one. You mentioned office buildings being an example of one of the worst investments. Would that follow through the Permanent Fund getting into, let's say, a guarantee for cities to build office buildings?

CARLSON: No. I think what I am referring to here is just the building of an office building for office building's purposes and just to be building it and no real need for it. Certainly, I realize that government needs office facilities, but not to make something with a lot of sugar-coating on it just because we have the--in other words, gold door-knobs just because we have the funds available. There are areas, for example, here when we look at a permanent building, certainly funding could be made available through the Permanent Fund or securing of the bonds would be necessary to build it would be a way to go. So I'm not excluding it, I'm just saying that we shouldn't be building office buildings for the building sake--just to have a hall here that would not be utilized.

GRUENING: Has Fairbanks used the Municipal Bond Bank with any success?

CARLSON: We have not had need of it. No, we've gone on our own bond. I think the Municipal Bond Bank is geared more in the past towards smaller communities who did not have the bonding capability that the larger cities have.

GRUENING: Do you see any need for that activity to be expanded to include Fairbanks? I'm trying to understand if

the city doesn't have need, then you're talking more about infrastructure, transportation, and so forth.

CARLSON: I think, it's my understanding of the bond bank the availability of it is if a community doesn't have the base to go on the bond market and get a good price could utilize this, then the state would then take and market the entire package, like Anchorage or Fairbanks, where we do have the base for a bond market and that we have not utilized this as a source. When I talk of transportation development, the airport and the rail facilities and the highways, it is, like I noted, we met with several people in the development of petrochemical opportunities here in interior Alaska. One of them even indicated should they select interior Alaska as a site, they would need a double rail to Anchorage for their commodities. This, of course, is a large scale operation. There is a continued need, to look at the transportation facilities and the means for funding them. Now we have to go to bond issues and there probably is an opportunity here for a pay as you go operation.

GRUENING: How would the, since the Permanent Fund, as you noted, has to earn its income and should be permanent, how would the Permanent Fund derive income, earnings from, say building a rail---would the petrochemical company pay for that?

Reimburse the Permanent Fund or how would that work?

CARLSON: The revenues, of course, on rail-maybe Alaska should buy the railroad with the Permanent Fund. It would have to be looked at as a source of revenue through the rail. It would have to be probably something worked out in that area, when you say that the petrochemical people or the oil people look at some way of funding the, or returning the funds, it would have to be on some type of scale for the use of it, if this is the way that we would have to go, if it wasn't available to go through other sources to the revenues that would be derived to the railroad would be a means of reimbursing the state.

GRUENING: Are there any other questions? Representative Parr.

PARR: John, we all saw your thing in the paper about the Fairbanks airport losing money. We all know that it usually does, because, obviously, the gallonage fees are all paid in Anchorage not in Fairbanks. If the fund were to invest money in the airport, have you got any ideas of the mechanism where we can make sure that the fund would get the, it would be a, you know, the money would not be a loss-- would be a making operation.

CARLSON: I think one of the things that was discussed in the paper the other night was the idea of a capability to expand the airport. It is my, in discussions that we've had with the oil companies or the gas companies that are doing this, until it becomes economically feasible or the demand for it, they would not put it in. Now if the state were to put this in, there would have to be probably a gallonage fee used to reimburse the cost of it. I think naturally the oil distributors are looking at their return on something like this before they would invest it and they'd be having to go into the money market. If the state could develop this, then there'd be a charge upon the flow of the gallonage through it. It would be a means of reimbursement.

GRUENING: Any further questions?

DOOGAN: Mayor Carlson, I just want to make sure that I understand--would it be accurate then to say that insofar as you can see a need for the use of Permanent Fund money that it would be on a relatively large scale for a large scale project?

CARLSON: Not entirely. One thing I didn't get into is, let's take agriculture in interior Alaska. The studies that we've had made over the years indicate that agriculture has a good potential and the climate is such that it would be well if not

better than we normally think of the Matanuska Valley. But the cost of clearing land is prohibitive to a lot of this development. Perhaps, something could be worked out on a smaller scale, where the funds could be made available for the land to be cleared over a period of years, so whoever is farming this is to reimburse it. So this would be probably considered a small scale development versus something in a larger area. I know that there probably will be more discussion on this agriculture aspect from other people.

GRUENING: Mayor, I just have one question on the agriculture. We do have an agriculture revolving loan fund, which is an aid--quite a few million dollars worth of loans. Do you know whether this fund presently is sufficient or whether it's one that we should expand? Are there problems with the loan fund itself, which make it incapable of doing what you'd like the Permanent Fund to do?

CARLSON: I haven't honestly looked into that to answer that question. The only contact I've had is with the people interested in developing; for example, about three weeks ago we had a contingent of people from Japan over here that were very interested in buying rape, which the university is experimenting with it, develops oil. It's a plant that will

grow where barley grows. It's a, for example, the oil that is used by MacDonaldis for their frying. It's not cottonseed oil; it's rape oil.

GRUENING: It's called rape?

CARLSON: Yes. It is being looked into seriously as a plant or a product that can be and should be developed in interior Alaska. In fact, since 19, I think, 52, Canada has been the largest grower of this product, the producer of this. It certainly would be advantageous in interior Alaska. We're looking at 3,000 acres to make it financially feasible. So it would be then an opportunity to develop agriculture as a stable economy in the Interior.

GRUENING: I think we'd have to change the name of the product.

CARLSON: I had nothing to do with naming it.

GRUENING: Could you stay for one more question? Representative Russ Meekins has a question.

MEEKINS: Mayor, following up on that line, we have two Permanent Funds in the state. The one we're dealing with

today is so large that it sort of overshadows the other one--- hopefully, it'll be large. There's not much discussion going on on a public level on the Renewable Resources Development Fund, which also establishes a Permanent Fund. That fund starts accumulating money in 1978, beginning in January of this year. It will have, of course, all this is subject to change, but it will have 20, 40, to 60 million dollars a year coming into that fund. I don't know what the renewable resource potential in the area is, but I know it's somewhere in the Interior that they're considering increasing agriculture and that fund would be a prime source of funding for that kind of development. In that sense, in fact, it would be more appropriate for that fund than the Permanent Fund. One advantage of that fund is that it doesn't have a requirement that it be income producing. So that there is something that needs to be indirectly appropriated, money can be directly appropriated in that case from that fund. Just for your deliberations, you might want to start considering proposals in regards to the disbursement of money from that fund also.

CARLSON: Alright, thank you. I appreciate that.

GRUENING: Thank you very much, Mayor. Yes sir.

SEIFERT: My name is Rich Seifert. I would also like to take this opportunity to welcome you to Fairbanks and thank you for allowing us to have this opportunity to speak. One of the things I really enjoy about living in Alaska is the accessibility of the legislature to public input. I certainly appreciate this opportunity.

My employment, by the way, is with the Institute of Water Resources at the University of Alaska. I'm going to dwell on a specific topic having to do with what is kind of a professional fetish with me---it's energy and renewable resources. I have prepared an overview of what I think is a good suggestion, and I hope you will consider for use of the Permanent Fund.

Its purpose is in view of the inevitable depletion of our fossil fuel resources, even with Alaska's comparative wealth, it seems very prudent to begin to assess alternative renewable resources of energy. We have an inevitability facing us, so the transition to a renewable resource economy, the whole nation does---it's obvious to everyone now that sooner or later fossil fuels are going to run out. So we have to begin to assess our future. My proposal is future oriented. Everything I intend to state has a future orientation about it.

The proposal in specifics is to use the Permanent Fund and

other available earnings, and I am very familiar, by the way, with the Renewable Resources Development Fund---I certainly wouldn't hesitate to make this suggestion strongly toward that fund, because it has to do with research. Use for these monies, as I would propose, would be to research those projects which relate to renewable natural energy resources relevant for use in any and all regions of Alaska. The prospective types of energy resources which would qualify for that program include:

Hydroelectric power, including low head, low-gradient water power applications

Solar heating and solar agricultural applications

Wood burning research for heating

Wood lot management research

Wind power applications

Certain geothermal applications---not all geothermal is legally regarded as renewable, something many people don't know, but some geothermal sources are

Tidal applications

Earth heat and geothermal gradient systems

Bioconversion and waste conversion systems

Ocean currents

Any other naturally available energy source which can be shown to benefit Alaska and which can be demonstrated to be renewable.

In my proposal, I do a legislative review of the renew-

able resources development after 1974 and also all the pending and on-the-books legislation concerning the Permanent Fund use; I don't need to go into that. You're probably more familiar with that than I am.

I think the public mandate is worth considering in this whole process. I was fortunate to participate in the Public Forums that occurred throughout the state. I participated in the one in Fairbanks. Interestingly, Fairbanks had the highest of all areas, which the public attested to its recommendation that the Permanent Fund be used to loan to development of renewable resource industries. In Anchorage and Southcentral, 39% of the people who were polled favored loans for development of renewable resource industries. 32% in Southeast did likewise. A quote from the Public Forum proceedings was that "The enormous response to that choice as the top priority use of oil and gas revenues set the tone for the regional workshops and most of the meetings from Skagway to Metlakatla."

I was also primarily involved in the town meeting on energy which occurred here in March. Some of the ideas we polled on that were uses of renewable resources of energy. In particular I asked the question on the questionnaire, "Do you think that solar energy is practical in Fairbanks, Alaska?" Surprisingly, of the people who were present, 62% of the people said yes, and

only 16% said no, while 22% were not sure. We also asked for priorities for research in energy development, which were relevant to Alaska.

We asked that they be prioritized according to six questions, six topics, by the way, and the prioritization occurred in terms of research support, first was solar; second was geothermal; third was coal; fourth was hydroelectric; fifth and sixth were synthetic fuels and oil and gas. Now, I was called on the carpet there because I didn't mention nuclear. I didn't mention nuclear because I don't think nuclear bears much on the future of Alaska for the next 50 year, because of the scale of application. Please be aware that I wasn't slighting nuclear, but I didn't feel that it entered into the Alaskan picture in a relevant way. I think most energy authorities would agree with me on that.

So I think the mandate is clear that people are very interested in the use of Permanent Fund monies and the large amount of capital the state is going to invest in Renewable Resources Development Fund for renewable resources. I think the public consciousness is there. People are not comfortable with spending that money, I don't think. They like the idea of using that money for a renewable economy. It's not always not very easy to articulate that in public, but I think the Public Forum responses are significant in that respect.

Now in order to accomplish that goal, it becomes a political question, of course. I would suggest that not a large amount of bureaucracy would be needed to set up an ongoing research program. I would suggest that the obvious place is the University of Alaska. It's Alaska specific; there's a crying need for money to do Alaska specific research now because many of the problems which result in questions of relevancy in university research today are because research has to be nationally applicable to get federal funds. If the problems aren't of a national crying nature, it's very difficult to document the need from Alaska's point of view because Alaska has an, inevitably is the case, has Alaska specific problems. Consequently, we fall flat on our faces when we propose research that's energy oriented in an Alaska specific sense to a federal agency, and they'll say, "well, how's it going to work in Pittsburgh?" Obviously, it isn't going to work as well in Pittsburgh, and it doesn't have a whole lot of relevance to a lot of the lower 48 problems. So we just don't have the opportunity.

There are also more specifics on how I would suggest this be done, however, that remains to be worked out in a political way; but I would suggest again that the University of Alaska's ongoing research establishment is perfectly adequate, capable of administering this in a fair sort of way. I would also suggest that somehow, and I'm not astute or sophisticated enough in the politics

to know how it might be insulated to a proper degree, and I put proper in quotes from the political process. I would like some degree of autonomy here because again, as was suggested from two previous speakers, there is a problem of power and whatever the university's position is not always favorable in the public eye now, so we have a lot of political problems.

The level of support for an ongoing Renewable Energy Research Unit depends on several elements:

Of course, it depends on the amount of money available from the resources, the Renewable Resource Development Fund, and the Permanent Fund earnings. How much the legislature should appropriate for this kind of research program.

The level of support necessary to provide support for that research program, including what is felt to be adequate, in fact, which, again, is a political question. However, I'd be more than willing to try to document what I think is adequate.

The political importance and priority of developing alternative energy resources for Alaska. This is a question I don't think a lot of people have addressed. Alaska's been preoccupied with land issues and a lot of state-level problems. We haven't really had an energy crisis here. I think the

fact that these other problems have overshadowed the issue that a lot of attention hasn't been drawn to energy problems. I think it's inevitable that they will. I think it's very important that that kind of a consciousness be raised in Alaska, that we are always better off doing something which is not irreversible. Right now, every time we start up our car, we are doing something which is irreversible. I'm not saying we stop driving cars, but to get into a system which is renewable is where we need to go.

Okay, I was getting into the philosophical basis of why I feel this is an important thing to do. But our opportunities are enormous here. I have a quote in my prepared notes from Walt Kelly's Pogo comic strip which has supplied what, I think, is one of the relevant quotes for Alaskans, and he says, "We are confronted with insurmountable opportunities."

I think that is a very appropriate way to address the Permanent Fund. I think there are many problems in Alaska that are, indeed, insurmountable for various reasons. But I think the establishment of a Renewable Energy Research and Development Program is simply a matter of having the will and foresight to commit our Permanent Fund resources to this plan. It can be a great service to Alaskans and the nation to provide badly needed development experience for renewable resources, both to ourselves, to Canada, and to the rest of the nation. Thank you.

GRUENING: Thank you very much, Rich. There may be some questions. I appreciated your letter, incidentally, earlier. I hope you got back my reply.

SEIBERT: Yes, I did.

MEEKINS: You touched on a subject, I think, is so close to my way of thinking. I can tell you that the Renewable Resource Fund, although it didn't list that possibility, I think it's certainly within the definition of renewable resource. I was one of the people who drafted that legislation that finally passed.

SEIFERT: I was concerned about that, because a lot of the aspects that are, in fact, using the public documentation that I did, never was it specifically stated in any of the Public Forums that renewable resources would include renewable energy resources.

MEEKINS: Well, that's one of the problems, of course. Some people define even mining as a renewable resource. It depends on who you are, I guess, how you define it. In my mind, that was what we envisioned when we passed that portion of it. I have a couple of questions.

First, what are we doing now? What level of research in energy development is Alaska participating in currently?

SIEFERT: Most of it is still at the proposal stage. I would say there is an ongoing wind energy program. I'd like to consult. Lee, would you mind giving me a hand? This is my associate, Lee Leonard, who also has his name on our preparation. He also works for the University of Alaska Geophysical Institute.

LEONARD: From the University of Alaska standpoint, there are several research programs which are ongoing and offgoing. For about five years, we've been involved with some level of geothermal research, geothermal energy research in Alaska. But the amount of effort, which has been given to these projects is spotty; and the reason is, as Rich pointed out, that one of the problems doing relevant, applied research for Alaska is that the sources of funding are mostly on federal level. In order to get those funds, you've got to show that the work I'm doing up here applies to Alaska; but it's also, in some way, applied to national need. This is not always easy for us to document. We have had a great deal of trouble getting research funds to do energy research which is specific to Alaska. As we know, as with several other things, energy research---the environment of Alaska is so different compared to much of the Lower 48 that we require specificness which we cannot appeal to the funding agencies to show that we are worthy of so many dollars. We do, though, have---we are in the process now of maybe making a breakthrough---more money

has become available on the national level through ERDA, the Energy Research and Development Administration, in other areas. So it looks like some money is going to start to come through.

Another reason we've been frustrated is that in many states when you apply for research which is specific to a state's need on a federal level, one of the common techniques of getting research money at a university level and other levels is to say, "Well we're asking the federal government for X amount of dollars and a state agency, which is interested, is willing to put up so many dollars in a matching fund." Our state agencies, because of financial exigencies, have not been able to meet these requirements, which would have enhanced our proposals at a federal level. So we've been frustrated again.

We do have a solar project which is starting now. The State Energy Office is involved with some research in geothermal energy and some in wind energy. We do have an ongoing wind program at the geophysical institute, which is also suffering some of these frustrations of kind of on again off again. We have never---nowhere in the state, to my knowledge, is there an active program, which has been established and which is ongoing at a significant level of activity.

One thing I might mention is that recently I've heard comments in the media that there is a complaint that the University of Alaska is more research oriented than academic oriented and so forth. I think it's a testament in a way to the ambitions and aggressiveness of many of the university researchers, which has built up. It has been the work of these people which has built up a very big research facility at the university. They have done it almost with a majority of getting money from the federal area. They have not had the opportunity to get money from the state to do state-specific research. So I would say that the potential is there, that the people are there. There's a lot of good talent there. There's a lot of people who are interested in doing work which is state specific if they had a mechanism to keep their job and do it.

I think it's inevitable that this kind of---if monies become available from the Permanent Fund or from the Renewable Resources Fund to do these kind of things, we're going to see a growth in research; but we're also going to see alot more relevant research.

GRUENING: Thank you. Sally.

SMITH: Just one question. Lee, you and Rich and I have

kind of talked some of this over; but would you explain for the committee the relationship between the university research program and the State Energy Office?

LEONARD: The State Energy Office, when it was formed, there were ongoing energy research projects at the University of Alaska. At that time, which was 1974, I believe, the university entered into a joint kind of an effort to sponsor a seminar, a meeting, on energy in the state of Alaska with respect to geothermal energy and wind power. It was held in Anchorage. Since that time, this joint effort went on and we had this meeting and it was very well attended. People came from all over the state, from little fishing villages, from bush villages, not people that had vested interests but a lot of homesteaders and fishermen and carpenters and everything else that were just interested in getting off the high priced petroleum band wagon, so to speak, in rural areas mainly; because this, of course, is where energy research really pays off, when you get out in the bush where they're paying 25, 30 cents a kilowatt hour for electricity or a buck and a half a gallon for fuel oil. The proceedings of this were published and since then, the university has not had what you would call good relationship with the energy office, for a variety of reasons, some of which may be personal and some of which may be institutional.

But a problem with the university, with the university doing research, is that it must maintain its autonomy from political entities as much as possible. So the University of Alaska's research has always been conducted in the, so to speak, the world environment of research. That is, we go to funding agencies on the federal level and in some cases international level---in the case of the Geophysical Institute and Institute of Marine Science and so forth---to obtain funds. There were some problems with, when we were trying to deal with the state through the State Energy Office, there were some problems of a political nature, which suggested that the university might best channel its energy research through a state agency, such as the Alaska Energy Office.

Well, as you can see, I'm trying to make this as painless as possible. It was a very awkward situation. The energy office was, from the standpoint of the university, too political to really function as a proper funding agency or an agency through which the university could channel its research. As I said, as an academic institution and as an educational institution, there has to be a degree of autonomy. An individual investigator could go out into the world, whether it be the private sector, whether it be a federal agency and say, "I've got an idea which might pay off, if we can

do some work on it." Therefore, he either gets his funds or he doesn't. But it is very difficult to work through a bureaucracy which has political overtones in this situation.

GRUENING: Are you suggesting that they were tampering with the results?

LEONARD: No, no. I'm suggesting that a university normally to give a specific example---the feeling of the energy office was that if the university wanted to do energy research, let's say geothermal energy, let's say the university is interested in doing a research project which involves a technique for small scale electricity development at a hot spring---the idea was that normally this is the way it's done. The university or the investigator, who comes up with the idea---I don't like to keep using the word "university" because it really is individual people with ideas that go out and sell these ideas---an investigator gets an idea to do something. He applies to do research on this idea to somebody. He may go to an oil company. He may go to the state, a given state agency. He may go to the federal government, a given federal agency.

Well, what the energy office was interested in doing was being a channel by which energy research done at the university level in Alaska, that all proposals for this kind of work be channelled through the State Energy Office. The State Energy Office in turn would rewrite proposals or would apply for the money. When the energy office got the money, it would become the recipient of the grant. Then the energy office would sort of pass out the money to the university. Well, this is out of bounds in the normal way academic research is carried out in the United States. It became a little awkward for us to operate like that.

GRUENING: Do you have a question, Charlie?

PARR: I would like to make an over-generalization and see what your response is---that the state of art is that we know that hydroelectric power is feasible. We know that in Alaska solar power is probably not feasible. We know that wind power is feasible only in certain areas on a very small scale. We don't really know what the possibilities are for geothermal.

That's probably an over-generalization, deliberately so. But I'd like to know, in other words, the point I'm trying to make is do we really need to do research on all energy sources at this point? Or isn't the state of the art such that in some of them we already know the answers?

LEONARD: Well, one thing, which is another generalization, but might help explain this---there's been a lot of talk so far today about investment of Alaska's money in renewable resources and investment of money in the Permanent Fund in renewable things. Every big corporation in America, every multi-national corporation in the world, every government entity does research in one way or another to find out new ways of doing their things. That's how the United States became a great industrial nation, because of the Yankee ingenuity, so to speak.

In order for the Permanent Fund to wisely invest its money in Alaska, we have got to continue to come up with new ideas, new ways of doing things. What is possible to invest money in renewable resources, such as a lumber industry in the lower 48, which has been done maybe for a hundred years, may not be the way to do it in Alaska to make it economically feasible.

In other words, there are a lot of specific things in Alaska with regard to industrialization of the state, questions which have never been answered. So when people have, when you have a large, usually what happens is a guy comes up with an idea; and he gets an idea that you might be able to make money this way. He generates the idea and gets it going and then he finds somebody with the money.

In Alaska, we've kind of got this situation turned around right now. Right now, we're looking at a whole lot of money, and we're talking about investing it in renewable resources. But how? Are we going to use the same techniques which have been used for a hundred years or two hundred years in the Lower 48, or are we going to have to come up with new ideas? I think is the question. I would say, in answer to your question, we know hydroelectric power is feasible. But we have a lot of flat running rivers in Alaska. We don't know about low gradient hydroelectric power. A lot of this research hasn't been done. There hasn't been anything concentrated on it.

As far as solar energy is concerned, I have a folder over here, which has a concept of a solar hot water and shower facility to be used in a rural area. Now this is to provide showers and washing machines, coin-operated. A guy can make a little business out of this in a village to people who could not afford electric hot water at 24 or 30 cents a kilowatt hour and they don't have it now, and they won't have it in the future, as long as the price stays that way. This little system, which we've developed here, which we're proposing now to ERDA to do as a demonstration project, would only operate for about eight months out of the year. But if you're living in Venetie, that may mean alot to you---or some other village, which has a great deal of solar resources for a large part of the year.

Geothermal energy, we know, is feasible. The big concentration on the federal level and millions and millions of dollars of research has gone into researching big power plants, geothermal power plants, which are big; because the Lower 48 is faced with the fact of transferring their normal energy fuels, their normal energy resources to a new type. They already have the industry. They already have the business. All they've got to do is find a new fuel to use. In Alaska, we don't have that. We've got to find new imaginative ways to use alternate energy resources to spark industries. So that's one of the things. So, no, we haven't done enough research in geothermal energy as it applies to Alaska.

Similarly, with wind power. Wind power is an old technology; it's been working for many, many years. Alaska has a great deal of wind resources. When we consider our rural population, village populations, which, even if there is a big dam put on the Susitna River, you're not going to run a transmission line to Bethel and Galena and McGrath and Ruby and all those other places all over the state. You're just not going to do it. Sure, we can use the standard technology, which exists today, to give power to places like Fairbanks and Anchorage, where our big populations centers are. But what are we going to do about the rural areas?

If we develop, are we going to develop two huge meg-

alopolises, one in the center of the state and one down in Southcentral? Or are we going to diversify and develop small industrial, small businesses and so forth throughout the state, and include the native population, which for right now, exists in kind of a quasi-limbo outside of the normal economic structure? So I don't think it's enough to say that we know very much at all about how the potential of renewable energy resources and alternate energy resources apply to the state of Alaska right now.

GRUENING: Thank you. Do you want to follow that up?

PARR: One final question, if I might; and that is this: wouldn't it be desirable to do some of that research on the capability of transmitting power farther without losing so much of it? You said awhile ago we can't do this. We can't for example, build a Susitna project, get power out to McGrath and these various places. Right? Or similar things, okay. We all know there's a power loss as it goes---the farther it goes. This has been the thing. Wouldn't Alaska, in the long run, be better off with an overall grid for the whole state, if that became technologically possible somehow, rather than a number of small, independent, unconnected power sources scattered in a hundred different locations?

LEONARD: Well, I think that you may be right; I don't know. Let me preface my remark by saying that, there is a difference in philosophy in the technical community at large in the world today.

One philosophy says faced with diminishing resources, we're going to have to go back to the age of individualism. We're going to have to start looking at unitizing our energy resources on local levels and so forth. A large power company--- I recently was talking to somebody from Union Oil who was in my office talking about this same concept. This is a consideration in industry, big industry, as well as just in the academic community. That's one idea.

The other idea is well, maybe what we really have to do is find better ways to transmit energy, as you suggested. It's very likely that the state of Alaska should fund research which investigates cryogenic transmission lines and various numbers of transmission lines. Probably you wouldn't do that at the University of Alaska. You might fund MIT to do something like that because they've got more horsepower, but I would say yes that that's something that could be done. At the same time, you want to do the other kind of research as well and in that research, hopefully the better ideas will come out of it.

DOOGAN: Because the constitutional amendment stipulates

that Permanent Fund investments will be income producing, I wanted to ask one of these gentlemen how research and development is income producing?

SEIFERT: We are referring to the Renewable Resources Fund.

GRUENING: Either they're referring to the Renewable Resources Fund or the dedication of the Permanent Fund interest. I corresponded with Rich on that.

SEIFERT: I would like to reiterate what was said. It is very difficult, this is a question that researchers always have to respond to---how are you going to justify your existence? All I can say is one of the greatest testimonies to the value of research is the fact that every, as Lee stated earlier, every major corporation, every major government, every major entity in the world does research. Obviously, it's paying off. In the annual research budget in the United States, there is over \$36 billion invested in research.

The benefits of research are not easily made obvious, because they're hard to document. If we were to develop and demonstrate the feasibility of solar hot water heating in Alaska---which, by the way, is a feasibility, I know it is, I wouldn't stand here and

say it if I didn't believe it and hadn't done the calculations, it is a feasibility, and it's an economic feasibility today, because our electric is so expensive. Even if you only use it half the year, it's an economic feasibility. If we could demonstrate that to people, show them that it's an economic viability, decrease our use of fossil fuels sources, decrease the expenditures of the public---that's our documentation. You don't do it unless you get the chance to do it. But once you can give people the opportunity to see what the possibilities are, that's what research is all about, expanding the human potential, the obvious technical potential. That's the only reimbursement energy research can ever provide.

MEEKINS: I think most of the members of the committee I've talked to would certainly recognize that there are benefits from research. I don't think that's exactly the question. The problem we have is a constitutional one with the Permanent Fund in that even though there may be social benefits, if we can't quantify them, we probably can't justify legally investing money in areas that don't return money back to the fund with interest, so they can't be social benefits or benefits that are disbursed other than the.....

SEIFERT: I wouldn't be certainly up here and guarantee

a fixed rate of return in that sense. I look favorably toward the Renewable Resources Development Fund. It's a less risky political way to go about this, but nonetheless, I think, I have faith in it. I have faith in the idea. I think it will document some value.

GRUENING: Okay. As I said, I'd like for somebody here who can't make it back after lunch. I would like to reconvene right at 1:15 sharp. If there's somebody who would like to testify now because they can't make it back later, we can do that. Mr. Weeden.

WEEDEN: Mr. Chairman, my name is Bob Weeden. The Permanent Fund problem is a complicated one and neither we as citizens nor you as legislators are really used to dealing with the problem that carries such a tremendous implication way beyond the time when you are no longer legislators or I am no longer alive, etc. The problem of grappling with a long term future is a tough one.

We have a couple of general purposes, I think, with the fund. One of them is that to some degree we don't trust ourselves to be rich right now. We don't know that we will really make good decisions about a lot of money when we have been used to not having a lot of money. So we are adopting a strategy of trying to smooth out and length out that curve of income from exhaustible resources. We're saying let's live leaner and longer rather than fatter and

shorter, if indeed that's the choice we have.

Another general purpose though is that we feel that the oil wealth ought to be translated into human welfare, and I think the interesting thing there is the money that we all talk about is only the medium, it's not the message, it's not the end product, which leads me to conclude that what we are about is establishing a mechanism, an additional mechanism beyond the governor, beyond the legislature itself for making social decisions of a very major magnitude.

One of the stray thoughts that has occurred to me that I would like to leave with you is that the fund and the use of the fund has to be firmly guided by policies that are developed by all citizens of Alaska acting through a diversity of representatives, who are, in fact, accountable for their decisions on behalf of the public. I would not like to see both the policy-establishing group of the Permanent Fund and the managerial group dominated by bankers. I feel that although bankers can make good social decisions, that their chance of doing so is no greater than a trucker's or a forester's or anyone else's. I would use an analogy that when I would really like to have mechanics around to keep car running, but I rarely ask them where I should drive it. I think that's the essence of the difference there.

The income from the investments may, in the fairly near

future, turn out to be kind of an embarrassment itself because it may get to be fairly large. The constraints on that income are not as great as you have pointed out on the capital itself. I would suggest that we look very strongly at putting income, a large share of the income from capital funds investments, Permanent Fund investments back into the Permanent Fund unless we prove in the interim that we devise really firm public social goals and that we can spend that income money wisely in pursuit of those social goals.

I feel that the fund should not be used to underwrite projects that could not stand on their own in the market place, I say that knowing that there must be a qualifying thing. When representatives of the people have decided that there is a social goal that mutually can be agreed on that is so important and that cannot be taken of by the market place decisions that there must be some kind of a front end loaning of money, there must be some kind of subsidy, if you want to call it that, that's fine. I don't object to that at all. But I feel that should be the exception to the rule rather than the rule itself.

There has been some mention in testimony today about the scale of projects, and somehow people are focusing on the idea that the Permanent Fund can do big things in a big way that other funds cannot do and private money may not be able to do. I

would maintain that if you look at the product in terms of human welfare and society, the scale of the project is of very little consequence. There can be bad as well as good big projects and there can be good as well as bad little projects. The need of those projects, at whatever scale, for Permanent Fund support is what needs to be demonstrated. The fact also needs to be demonstrated that those projects, big or small, are really in pursuit of social goals that we agree on are satisfactory. That's one of the prime things we should focus on again. Money is only the medium. It certainly isn't the message itself.

I personally feel that we should not use the fund in ways that have as one of their major results a large increase in the population in Alaska. I say that because I know a lot of people who do not feel that we need millions of people up here. There are a lot of people who feel that some of our amenity resources are in scarce enough supply right now, the competition is keen enough for them right now that we would not really need to consciously go ahead and add more people to the state of Alaska as a goal in and of itself. I think it's fairly clear that certain proposals for use of Permanent Fund monies would have, as one of their major effects, the increase in numbers of people coming here. If you propose to eliminate income taxes, for example, you create a haven for

people who don't want to pay income taxes. That in itself would be a major incentive for people to come here, establish a residence, if there is a residency requirement tied to it, etc. Those are the sorts of things and I toss this out knowing that a good many people will not agree with this goal and that doesn't bother me a bit. All I'm saying is that we should decide mutually whether or not increasing our population is, in itself, a desirable goal. Whatever way that decision goes, that will be one of the policies that will influence the expenditure use of Permanent Fund monies.

That's really all I had to say at this time, Mr. Chairman. As I say, I'm easily embarrassed in this whole field of income investment. I don't deal in the figures that we're talking about here, personally. I will, however, try to acquaint myself with what seems to be the most important parts of the nuts and bolts of this thing as I become more acquainted with it.

GRUENING: I hope you do that. Thank you for the very thoughtful statement. I was intrigued by your comment on the use of the income. At the same time you mentioned the fact that you think the investment decisions sometimes, at least the policy of them and whether or not to make them in a particular area, could be better handled or as equally well handled by let's say laymen.

In that regard, would you think that the use of the interest,

in terms of paying it out, could be equally handled by the individual who received it? In other words, if everyone got an equal share of the income, aren't those individuals equally competent to spend it on what they see fit, as opposed to, say requiring that we re-inject it in the fund for whoever the fund managers are to decide what to do with it? See my point?

WEEDEN: Yes. I do, and what you are saying is that one of the channels into which we might like to put our oil wealth is immediately into the private sector for the individual to make her or his own decision. That's fine. Do you always then ask to what extent? Is 30% the right figure? Or is all of the income? Or, you know, what is the right figure?

That really is basically a decision of how much to favor the present generation as opposed to the future generations; that's only partly true, because presumably the private individual could put that money into a trust for children and so on.

But it's also partly a decision to increase activity in the private market place, which is already, by the way, being increased through the other channels through which oil wealth passes.

All we're talking about is the state, public revenues. We're not talking about the private wealth that is generated through exploiting the oil resource. Certainly a lot of the people who might get part of this Permanent Fund income monies as their very own are also getting a share of the oil wealth in other means by having jobs at high rates of pay, etc., making good business investments.

So, I really can't say that I have a preference there. What you do run up against though is the same thing I mentioned before---if it looks as though your decision to put Permanent Fund income monies back into the hands of private individuals is going to stimulate people to come to Alaska, so that they can gain a share, then you ought to recognize it and decide whether that's what you want to do. Is that a sufficient disbenefit, let's say, to override the benefits you see from doing it?

GRUENING: You mentioned subsidy that should be an exception to the rule. What entity do you think ought to be best to decide on who gets the subsidy? The legislature, the governor, I'm just giving you these examples---they're not the choice you could pick---if you're not going to use the market test in terms of, let's say the Constitution---what entity do you feel is the best one to decide who gets the subsidy?

WEEDEN: I think, in terms of who gets it, I presume you don't mean the individual applicant?

GRUENING: Which Alaskans, general, as a class? If you look at loan funds, there are certain classes of Alaskans that get more loans than others. If they are subsidized loans, they get a greater benefit than others that, say, pay loans at the market rate. So the political question, you, the political system allocates benefits. Part of that system, what entity, my question is...

WEEDEN: My feeling is that to provide a subsidy is an important decision that must stem from some social goal that you have and we are talking then about those decisions must be generated, in my view, by those who are accountable to the public for developing and articulating social goals, the legislature and the governor. Now, if you ask as between those which, well there are pros and cons on either side; but I would say that the legislature, being obviously more diverse by 60 times, is the one that should be setting the overall policies including the policies for how to disburse this broad subsidy benefits, if there are subsidy benefits to be disbursed. The governor and his administration help to carry that out, and the Permanent Fund policy group has

other levels of policy that they have to make decisions about. I think it's a tiered structure, but I simply see the legislature at the top.

GRUENING: Any other questions? Russ.

MEEKINS: Mr. Weeden, we've had some testimony from some of our consultants. It's a funny thing. They are very concerned about us sort of diluting the power or the benefit that we can distribute from investments or anything from the fund by the influx that people that that investment might create.

What they've told us, and I think it makes sense to a certain extent, is that amenities are also part of the real wage. People come up here for higher wages; they also come up here for more amenities. The person who was giving us this, he followed this logic out and came to a different conclusion---he came to the conclusion that we should distribute, if possible, we should distribute the principal of the fund, which, of course, we can't do constitutionally. But lacking that, at least all of the interest from the investments of the fund, which should be maximized for yield, should be distributed to the public because he felt that anything else you did with it, any social benefit, any economic benefit at all would be completely diluted by the in-

flux of people to obtain that benefit and that the real wage counting amenities would always equalize.

WEEDEN: In other words, if we spent the income in these ways we would, let's say, diminish Alaska's stock of amenity resources. Therefore, people would have to use that income to travel somewhere else in hopes of finding them. Maybe that would be the case. I don't know. No, Russ, this is one of those areas where I am not convinced that I know where I would vote on this question of using income, but I think you obviously understand the overall goal that I'm looking towards. I don't know how to get there.

MEEKINS: It's sort of Catch 22 we're confronted with because I'm tempted to suggest that we use it for creating a better quality of life for people, economically and other ways. At the same time, I can see, we've had one example given to us, I think it was a very good example, that in New York state changing their welfare laws some time back, and as a direct result of that, two million people immigrated to New York, mostly Puerto Ricans, but other people also. Consequently, they then went into a deficit situation in their welfare; and they didn't have as much money to distribute to the large amount of people, so it just sort of under-

cut the benefits they were trying to give out because a larger number of people were claiming them.

Alaska, with its small population, is very vulnerable in that sense, it seems to me. One of our people testified, I'm not sure it was correct, that the number of unemployed in the city of Detroit is larger than our work force here. In a situation like that, if we attempted to create jobs or if we attempted even to make life better for people without jobs, we may find ourselves undermined in the very principles or very things we're trying to get at.

WEEDEN: I might point out that all of us are really puzzled and the Pogo comment of "insurmountable opportunities" is really neat, I think; but what we can understand, too, is that we can manipulate the amount of flow of revenue into the Permanent Fund in various ways. We can manipulate it by changing the tax structure, for example, changing our royalty share. You might say that well, if we don't know what to do with our money, why we just let the oil companies pocket all the profits and they'll certainly take it out of the state and solve our problem.

Another possibility is to approach the leasing of state lands for oil and gas, in other words, gear the development of the basic resources over time to that amount of income that you think you

can handle. I guess Norway has kind of approached that strategy that way. They say, "look, we just simply won't lease a piece of land until we think we want the money." That's another way of either starving or enriching the Permanent Fund over time. So there's lots of things we can do with our left hand if we can't do it with our right.

GRUENING: Any further questions? Thank you very much, Bob. We'd like to come back promptly at 1:15 and anybody who wants to testify, we'll be ready. Thank you.

BREAK FOR LUNCH

GRUENING: I think we can start to call this thing back to order, and call up anybody who wants to be first in the afternoon portion of this. Sorry about returning a little bit late. Go ahead. We had a slow waitress. A good lunch, but a slow waitress.

INOUE: Thank you. I am sorry I have just a single copy to distribute to you.

My name is Ron Inouye. I'm a resident of Fairbanks and am employed at the University. My comments to you are strictly my own.

I appreciate the opportunity to share with you a few of my concerns regarding the Permanent Fund. Although the thoughts I express may not directly fit what may currently be the focus of your committee's discussions, I do hope that a few of my ideas may creep into some of the committee's minds and find a hospitable niche, to be retrieved at the appropriate time.

My plea is pretty much a standard one, that of increasing help to state agencies for the preservation of historic and cultural artifacts and manuscripts. I believe we are all aware of the usual arguments for such material, culture and manuscript preservation pleas resulting from vanishing life styles, big time economics decimating human values, and all of those kind of arguments. However, I would like to pursue the issue a bit differently.

If the purpose of the Permanent Fund is essentially economic and your concerns are accruing interest and getting "a good return on our dollar" I would like for you to consider the following:

Tourism is an example. It's becoming a larger and larger part of our state's economy. Why do tourists come here? I bet it's not to see how many new homes have been built in Anchorage or Anaktuvuk or to shop in any of one of the new malls that are popping up all over the state like puffballs after a lucrative rain. Many of these tourists come up to see the undeveloped areas and to look at the historic sites and artifacts of the past. The

tourists love the local museums and historic buildings. They stay in hotels and spend money on transportation and meals, they visit those museums and historic places. Without those records of the past, the tourists wouldn't be here.

What economic contribution comes from the current educational and research communities of our state which use as their raw material the resources of the past that are now discreetly preserved and made available for present use? Take a look not only at those on private and state payrolls servicing museums, archives and libraries, but also those who make use of those collections. Those depositories of information are located all over the state from Ketchikan to Barrow. The users of these depositories include the lawyer, corporation executive, environmental impact statement complier---all of whom are linked in their work to information from the past. They indirectly make their livings too from the past.

Needless to say, I believe there is a long-term return on the dollar for every penny spent by our state government in historic preservation and the acquisition and care of historic manuscripts and material collections. These are the kinds of things I believe the state should be promoting through its Permanent Fund development.

While I believe that Permanent Fund money should be partially devoted to such things, I believe too that good management

principles should be applied.

Several years ago the Kate Pullen Memorabilia Collection was lost to and by the state. That historic Skagway collection was offered to the state as an intact collection and would have been an asset to all of us. Unfortunately, the state was unable to get its act together and the Pullen Collection was sold off piece-meal to the highest bidder in Seattle. I was in Seattle during that sale and saw many Alaskans there trying to retrieve bits and pieces so that they could be returned to the local museums within the state.

Regardless of our personal feelings about the value of the Pullen Collection or those that that represents, the situation points out that our state has inadequate policies to deal with such situations.

When first teaching in Ketchikan, I was very interested in having my students learn more about Northwest coast art styles, particularly that done in the Southeastern part of the state. In checking for good examples from the late 1800's and early part of this century, I found that my students would have to go to Portland or Leningrad or Denver to see them. Is there not a way that some of those items could be returned to our state?

I feel guilty and powerless to do anything when I hear about another art dealer from Seattle, or Anchorage for that

matter, buying another collection for disposition when really the state has a legitimate right to look out for the public's interest in such situations. This pattern continues because we have yet to find a creative way to ensure that cultural materials and manuscripts of significance stay in Alaska, open to public use. Had we conceived of these materials initially as resources of increasing value and developed good management policies for their acquisition and use, we would not now be wringing our hands and bemoaning the loss of so many valuable aspects of our state's history. Thank you.

GRUENING: Thank you, Ron. Representative Meekins.

MEEKINS: Ron, thank you for those comments. I found them very persuasive, quite compelling, especially from a viewpoint of my duties as a Finance Committee member. Chairman Gruening is also serving on the House Finance Committee. My question is in regards to the specific purpose of this hearing which is a testimony in regards to Permanent Fund investments. One of the limitations on the Permanent Fund, which we explored and talked about quite a bit in the morning session, was that it must, by Constitution, be income producing. There is some debate about exactly what that means. We, I think, do have some agreement that the income producing must be a

direct income. In other words, dollars must flow back into the Permanent Fund. It can't be social benefits put into money terms. So I am wondering if you have any, if you thought of it in that respect, and if you have any ideas to how we could accomplish your purposes with the limitations of the fund.

INOUYE: Well, I think there are probably a number of ways to approach that. One would be to, in fact, find a way to squeeze around the intent of the law. The other is to maybe just change it, because we found that we're dealing in a very marginal area now, where there is very little support, because you can't quantify the benefits of such things. Similarly, you can't quantify the benefit of research. I think Rich Seifert pointed that out fairly well today.

There is really no other source for these kinds of things to remain in our state for all people to use. I think if maybe we broaden our definition of what income producing would be, to take a look at the fact had we bought that Pullen Collection, its value on the market now would be so many dollars more. If you arbitrarily wanted to sell it and spend that increased amount of money, you could.

MEEKINS: Maybe that's an idea right there. The appreciating

value of the artifacts or whatever we bought might, I don't know, I'm just thinking, but that the...I'd just like to say two things.

One is that I was in the legislature when we failed to purchase the Pullen Collection, and I was on the Finance Committee and voted for it, but unfortunately, it didn't prevail.

Secondly, I think that you have to remember that the words income producing are not in the law by legislation. That was in a constitutional amendment voted by the public. In order to change it, we'd have to have another constitutional amendment to change the language. As a political matter, that's very unlikely to happen, I would say, since the legislation other methods in order to accomplish that besides changing the law itself.

INOUYE: Right. I recognize that and I think in my earlier comments, I sort of addressed that by saying, "I hope you keep these things in your minds, and then when the appropriate time comes, that you as legislators will see a way to possibly help us." Because I am getting more and more concerned about those large collections in Alaska that are

just barely surviving. Certainly, we're aware of one major one in Southeast, probably two or three, that could very easily leave the state unless we have some strategy to have money available in a fairly fluid form to get those things purchased at the time they're available. If we have to wait for the legislature to appropriate the money with all the appropriate politics, our chances are gone. I think Kluckwan is a very good example of that. I think the history of that case is not unique and that it has been going on for many years. Some place in the middle of all of this, I think there is a string of logic that somehow we can attach to something. All I wanted to do was raise the issue with you.

GRUENING: Thank you. I always think there's more than one way to skin a cat. The Permanent Fund may not be the most appropriate institution to do it, but you could either do it through the use of the Permanent Fund income directly purchase these materials or set up a special grant fund in the General Fund to do that or again maybe the Renewable Resources Development Fund--- which doesn't have to make loans, it can make grants---could do it. I think maybe you could write under the tourism loan, maybe have a grant system and have some entity administer, be able to administer quickly enough, so it can, at an appropriate time, step in and prevent the loss of these priceless items. You might give some thought to how that might be administered in terms of---if

you're not going to have it directly run by, let's say, Commerce or a special department, how you might have it structured and who would serve on it.

INOUYE: I wanted to make clear too that there are many manuscript collections that I think would equally fit into that area. For instance, there are many things in the University Archives that are really invaluable; but I have a feeling there are a lot of other things that should probably have been deposited there, that unfortunately we don't have now.

MEEKINS: Ron, one other thing. I serve on the subcommittee that is looking into the Renewable Resource Development Fund. If it's alright with you, I'll send a copy of your comments to this committee to the chairman of that subcommittee, Terry Gardiner.

INOUYE: I'd be pleased if you would do that. Thank you.

GREUNING: Thank you very much, Ron. Yes please.

MATSON: My name is George Matson, the Executive Director of the Fairbanks Environmental Center. I don't have any prepared testimony, but I would like to make an appeal to you

that the money from the Permanent Fund be invested in environmental research, environmental baseline studies, fish and game. fish and wildlife and habitat. These are renewable resources, and I know the question you're going to ask, how do they produce income? Well, I think, you can look at this in a number of ways. If you look in your booklet here, it refers to the origin of the Permanent Fund, and it says that the fund evolved as a means of preserving the Alaska lifestyle. I think fish and wildlife and the habitat are very much a part of this. So I think some of the statements and some of the reasons why the Permanent Fund evolved are very much in support of why a broad definition of income should be applied to how the Permanent Fund is spent.

I think, also, we're all familiar with the environmental impact state requirements and things like that. You can directly relate the quality of the baseline study to the potential for resource development. If the baseline data isn't there, the resource development is jeopardized. The resource developments produce the royalties and the leases and everything else from which the Permanent Fund feeds off of. So there's a relationship there.

Also, I think, you can relate the protection of the fish and wildlife and habitat to social costs. One thing I would like to point out to you, maybe you're not too familiar with it, I just came back from Barrow. I spent a few days up there, involved with the Inupiat in terms of the bowhead whale situation.

They're faced with a decision by the International Whaling Commission to, well, in fact, the decision has already been made, not to allow any bowhead whaling starting the spring of this year---next year.

It doesn't appear that the justified position on the International Whaling Commission's part, and in response to it, the people, the Eskimos in the North Slope area, have put together what I consider to be a very excellent proposal to look into the population dynamics and habitat of the bowhead whale, in fact the whole habitat, which you might define as the Arctic Ocean. They're very sincere about this. They want to protect the whale; they want to protect their culture, the two are related, but this proposal they have, which is sophisticated, uses an inventory as well as combines the knowledge of the whalers is a pretty extensive effort.

They're concerned enough that they have taken their dividends from the North Slope Borough---30 some hundred dollars and applied it towards the start of the study. However, the study is going to be about \$13 million and they don't have the money to do this. I think it would be very appropriate if the Permanent Fund were to put some money into this five year study that's being proposed. You can, here again, you have to, if you take the rigid interpretation of

what is income producing, you might not be able to justify it. But if you look at the alternatives and apply a little flexibility, you'll see the social costs, if the study doesn't go forward.

Without hunting of the whale in the Artic Slope, there's going to be all kinds of social costs in terms of welfare and transporting food up there and everything else. It's not desirable, I don't think, from the state's viewpoint or the people that live there. Like I mentioned, I don't have a prepared statement. I just wanted to point out that I think this is a legitimate need, and right now, I just came back from a very intense exposure to a very legitimate situation.

GRUENING: Thank you very much, George. I attended the Inuit Circumpolar Conference, and I remember when that was discussed, the people were very concerned about it.

I think the question facing this committee with your suggestion and that that was just made on artifacts is one of dealing with all the proposals with the appropriate tool.

One point we tried to raise in the brochure, and I don't know whether we made it clear, is that there are two funds that the legislature deals with. One is the General Fund, which in terms of revenue projections, is going to be probably larger than the Permanent Fund to the extent that we've derived money from

our oil wealth, the larger portion of it, as the constitutional amendment now stands, will go into the General Fund. There are no restrictions on the General Fund as to how it can be used. We could spend it to study peanut farming in Alaska or we could use it for, say, baseline data for the bowhead whale situation. That's one thing we have to address--- which is the most appropriate tool for it. I'm saying that your proposal, your suggestion that we look into it is a good one, I know, I think, I hope the governor, at least, who has been up there for that and has expressed some concern, will have a suggestion as to where the money should come from.

MATSON: He expressed concern but he didn't express any solutions or absolve the state from being a part of the solution. I think the state could be, they could exert some leadership here and say the state is just as concerned and is going to chip in to this \$13 million or whatever it's going to be to do this study.

In terms of income producing, you might point out that what they want to do is develop a sophisticated monitoring system to measure a number of different types of signals from whales, acoustical signals and everything else. This type of monitoring system has all kinds of applications in other OCS areas. So attached to this, you could have a license.

The license would generate income because it would be bought, you know the concept or maybe even the whole package, the hardware and the software could be bought by someone else to monitor some other species or maybe even by the Defense Department to monitor submarines for all that matter. But basically, the mix of sensors they want to put into this, I think, has a lot of potential in other areas, and so, like I say, if you use a little imagination, you can find out how it would produce income. Just having a license would be one way. Patent, I should say.

MEEKINS: Just to define terms here---we have, of course, as we've mentioned, there are several funds. We have the Renewable Resource Fund, which your suggestion would probably fit under that definition---it does not need to be income producing.

Then we have the General Fund, which is used for budget purposes, but there is, at this point, projected to be a surplus of revenue over and above what we spend on the operating expense for government in the General Fund, so there'll be a surplus in the General Fund.

There'll also be a surplus revenue in the Permanent Fund. The Permanent Fund is the only one that's limited to income-producing investments.

In fact, the revenue from the Permanent Fund is not limited.

If we make 5% or 10% return on a billion dollars in the Permanent Fund, that's quite a substantial amount of money in itself. That money is not limited and not subject to the same constraint. So you have of the four vehicles there, you've got three of them that are not limited.

MATSON: One reason I wanted to point this out is that time is of the essence here. This whole system would have to be operating sometime next spring. Now if money comes from the General Fund, the legislature would have to be in session first. I'm under the impression, it may be wrong, that you have the ability right now to commit money from the Permanent Fund.

GRUENING: No. That is one impression I want to clear up. The Commissioner of Revenue---there's about \$7 million that has collected in the Permanent Fund now. That's a total amount because the pipeline hasn't been in operation very long---the Commissioner of Revenue is authorized to put that into essentially a savings account. He wouldn't be authorized to do anything else with it. We'd have to change the law to authorize him to do other things with it.

Because of the constitutional requirement, I doubt whether we could change the law to allow grants or investments to be

made that didn't produce direct income. Now this doesn't mean we couldn't use the income from the Permanent Fund to do what you're doing, or these other loan funds. Actually, your problem probably is only addressable by the Permanent Fund in terms of the time frame you're talking---I mean the General Fund---in terms of the time frame you're talking about, because the General Fund has right now, it's got a cash turnover of close to a billion dollars. That's the only fund that has the kind of money you're talking about. I don't know how much you're suggesting the state kick in, but...

MATSON: Well, the Department of, they're approaching the Department of the Interior. They're using their own money as much as they can. I think it's a significant commitment to take all the dividends from last year from the North Slope Borough and apply it towards this study.

MEEKINS: Of course, if time is your problem, the Renewable Resource Fund has no money in it yet. It doesn't even start collecting till 1978. The Permanent Fund has just a few million dollars and there's no income of any great amount being produced by it yet. That income is going to be reinvested anyway under the current law. So nothing could happen till the legislature meets. Your most likely vehicle, in fact I think, your only one

if you want it within---by next spring is the legislature.
Out of the General Fund, just a regular appropriation.

MATSON: Well, I think there's another point I'm alluding to, I haven't brought out is very much in accord with what Bob Weeden mentioned. I'd hate to see the Permanent Fund be defined according to what's acceptable to bankers. I think the tone of how this whole thing started was it's for the basis of the people; it's not for the basis of feeding more money to the bigger and better for fewer and fewer. I think, unlike our rate structures and some of the other things, it should be structured so it benefits the smaller person more so than the bigger person, the bigger corporation. I appreciate what you're saying but taking a rigid interpretation to me comes across as it's going to favor those who are higher up in the power structure to tap into this.

GRUENING: We're trying to avoid that. I'd hate to see it, like Mr. Weeden, benefit the bankers. They need it least.

CARPENTER: I was just going to elaborate a little, George. We have to keep a clear focus, I think, on the principal and then the income from that principal. One of the basic thoughts here is that if we adhere as we are mandated to a strict fi-

nancial interpretation of the income producing for the investment of the principal of the Permanent Fund, then the types of projects you involve to speak of, the research that's necessary and so forth will ensure us of monies down the road income for which these restrictions are not placed. I think, though, that if we try to depart in the investment of the fund from a strict and literal interpretation of income producing will be, in fact, defeating your interests and Bob's in the future. We don't want to dissipate, cannot dissipate the fund.

MATSON: I'm not sure the best way to address these needs that I mention, but I want to be sure that in the mix of all the tools you have to work with it does get its fair share.

GRUEING: You don't fall between the cracks.

MEEKINS: I might just say something too. I think that the points you make are very good ones, and the committee, I feel, is in agreement with your attitude essentially. We see it---what we're trying to find out and what I don't think we do have any great consensus on in the committee or in the legislature is how to go about getting benefits to Alaskans and Alaska society. We certainly don't want to benefit just the economic part of the state, just the bankers and other people who are involved in

financial dealings. The question is, is it better to do that by investing that money in very high yield activities or investments and then using the income from that for social benefits or whether we should use the principal and directly invest the principal in things that might be socially beneficial? That's the only question.

MATSON: There is a potential for high yield on these things, I think the availability of fish and game in Alaska has a very dispersed high yield to a lot of people. To Rich Seifert, it was asked how you quantify this. I think it's not easy to quantify, but it's clear how you quantify these things. It's difficult because the benefits are dispersed. Its not the same as if some corporation has their income coming in and selling products all over and they can work at their bottom line. The benefits don't channel into one area---channels to the whole public and what you have to do is do some economic research and breakdown of who benefits by this and who loses by that and through the EIS process, I've seen other areas where there are quantified things like recreational benefits. In fact the Corps of Engineers has become pretty good at saying, "Well, so many user days is worth this much to the economy." I think you can do the same thing here. It's just not as obvious because the benefits are dispersed.

GRUENING: Thank you. Any further questions? Thank you very much. Do you think it's quiet enough to open the door now? Sandra, love to hear from you.

STRINGER: My name is Sandra Stringer, and I'm here speaking for myself.

First of all, I would like to thank you for coming to Fairbanks to ask for opinions. I think that this is certainly a step in the right direction in terms of getting public input and also spreading knowledge on what the Permanent Fund is and what it can and cannot do. I think it's evident from some of the people who spoke earlier today and certainly from myself, from my own lack of knowledge as to what are the real specifics in terms of what the Permanent Fund was designed for. I found myself, a little earlier, in listening to George and agreeing with a portion of what he said and listening to Rich and to Bob Weeden. I also found that I agreed, a little bit to my surprise, with Representative Carpenter. I think that I really do agree that money is a means of transaction. Therefore, we must be extremely careful that the principal is invested in such a way that we are going to continue to get money from it, that the interest from the principal is going to continue to come to the state.

However, it seems to me that there must be a way, there should be a way in which to invest this money so that the money could

perhaps be invested in the state itself, in various enterprises within the state hopefully or at least a portion of the money, and that there would be spin-off, good spin-off on that, and that the interest drawn from this investment can be used to subsidize such things as research and as projects, various projects which have been mentioned, which have no source of funding right now and which could bring great benefit to the entire state, even though that benefit could not necessarily be quantified in the monetary fashion.

I wish I were able to suggest some way of doing this; I really can't. I'm quite ignorant in terms of investment, in general, and certainly don't have any specific suggestions to offer you as to how to invest the Permanent Fund. However, I do feel, as Bob Weeden also stated earlier, it would be a very good idea to be sure that there is some general citizen input along with your money managers, along with your bankers and your investment brokers that there are some ordinary citizens whose opinion is asked, not, of course, for the technical end of things, but just to get an idea. Some people who have lived in Alaska for awhile and who plan to live in Alaska and who want to see the state prosper and grow however prosper and grow is defined by the individual. That's really about all I have to say. Thank you for coming. I hope you come again.

GRUENING: Thank you, Sandra. Any questions? I am glad that you got up and didn't feel intimidated by the seemingly technical nature of it because none of us know any more about investment banking than you do. That's not what we're interested in. We're really interested in how people think the Permanent Fund could help Alaska. I'm glad that you came up here and gave us your philosophy. That's really where we're at, at this point. We hope to come back to Fairbanks too when we have a proposal and hear some more.

STRINGER: Thank you. I think that certainly the people in this room are reflective of a vocal portion of the community. I think they'll have a lot of good ideas.

However, I know that there are many others in the community who might have come today if they felt they had something to offer. Many people that I've talked to felt that because of their lack of technical expertise, they really didn't have anything to offer to the committee and were reluctant to take up your time and their own coming down and offering some sort of general comment. Please be assured that there are a lot of people in the community who are concerned and who will continue to try to become informed. I think that the Alaska Forum last spring, for instance, there was a discussion of the Permanent Fund at that; and a lot of people started thinking at that time about the subject.

Most people don't have the technical background, as we've already gone over, to offer firm suggestions; but I think they shouldn't be discounted as being, say, disinterested. They are interested; it's just that they don't have the background.

MEEKINS: Sandra, do you think that there is a need for more information about the Permanent Fund to be distributed in some way or another to the public?

STRINGER: I think it's not so much---certainly there is an amount of information available. I think it's not so much lack of information, as most people in our society, which is already so highly specialized in so many areas, most people who know nothing about oil, for instance are somewhat reluctant to talk about oil policy. Most people who don't know much about mechanics are reluctant to offer their suggestions about mechanical things. I think it's generally just, not so much lack of information as a lack of, I don't know what, an assurance on the part of the people on what they're speaking about.

I think you should continue to attempt to get word out to people that there is a Permanent Fund because, often in the

rush of every day life, people tend to forget---"oh, yes, I remember reading something about that or hearing something about that a month ago or two years ago or whatever." Since it's something that will continue to affect us, and far more so than right now, in a few years, that a continual stream of information must be put out and also you must always assume that when you put out that particular piece of information, that no one knows anything and start from point one recapitulating, if necessary, because people do tend to forget, even those who are interested.

PARR: Sandra, you mentioned that you would like to see at least some of the money invested in the state. If the state could get, and I'll take figures out of the thin air here, if the state could get, let's say, 7% in New York in some kind of investment and could only get 6% in the state of Alaska by investing it in the state or 5% or something, does that seem like a good trade-off to you? In other words, not those specific figures, but would you think it would be desirable to accept perhaps a lower rate of return by investing in Alaska? Do you think the benefits would outweigh the loss of interest dollars?

STRINGER: I think probably that it would depend a great deal on the projects that you know what the two projects were that were being invested in, and the exact amount of loss being

experienced and also whether you're talking about investing 100% of the money this way or maybe 50% or 10%, it would vary a lot. But it seems to me that under certain given circumstances, the loss of financial return to the principal, if it were not too great and the project were sufficiently worthwhile---of course this is all a very subjective evaluation---that it would indeed be a trade-off that could be acceptable. Because after all, the money should be benefitting Alaska.

PARR: Thank you.

GRUENING: Sally.

SMITH: Sandra, if I may just add for the benefit of anybody else who lacks self-confidence to come and speak as you have, I know of one person sitting on this panel that's in the dark in a lot of it and that's me. This is where we need to get some of the people out to learn about it. Perhaps, some of the fault with all of us is when we send information out, it's already too technical for anyone to understand. There again, I can fall under that category on more than one subject. When I pick up background information, I have to sit there with a dictionary. We need to really, all of us, kind of re-evaluate how to present information to the public,

so that it's short and concise and does bring about their interests and let's them feel that they have something to say too. I'm really glad you said that.

STRINGER: Well, thank you, Sally. I think that a lot of times people are so caught up in the general business of living, sending the kids to school, getting to work on time, bringing in the pay check, and maybe taking off an evening for fishing, that they don't have time to read the legal page or they've seen an advertisement on television about something, but it's real hard to follow up. A brochure of the nature which we picked up today is most informative but sitting here, trying to scan it while the meeting was going on, I found that I should have probably gone home and gotten a dictionary and come back too. But you can only make a certain amount of effort in that direction, I'm sure.

DOOGAN: Unfortunately, this is a rather technical question.

STRINGER: You probably shouldn't ask it of me then.

DOOGAN: Those sorts of things have to be answered. Really the purpose of my comment is to say that the committee has been cooperating with the Public Forum and one of their four main sets of questions is going to be Permanent Fund questions. I believe they're scheduled into Fairbanks sometime later this month.

GRUENING: September?

DOOGAN: I think so. I don't have the schedule with me.

GRUENING: It's after October. I think the first one is in October.

DOOGAN: Yeah. What I am talking about? It would be later in October. I'm sorry. But the purpose of that comment is simply to say that we hope to derive some information for the committee's benefit as well as for the general benefit of the public through the Public Forum. So we would hope that everyone here would participate.

STRINGER: Well, it was well advertised last time. Hopefully, it'll be equally as well advertised this time.

GRUENING: Thank you, Sandra. Allen Bloom.

BLOOM: Thank you, Mr. Chairman. My name is Allen Bloom. I'm here also just as an interested spectator more than anything else. Originally, I hadn't planned on testifying but I was going to use this as an opportunity to familiarize myself as well with the technical mechanism of the Permanent Fund. I'd like to point out I'm not an economist, but I

do have two recommendations for long term utilization of the principal for the Permanent Fund.

The first is that after we've solved, to a great extent, the investment problems that are facing the state of Alaska, and we've funnelled whatever principal into the programs that may be funnelled in, 25 years from now or 50 years from now, it may be advantageous to take the principal of the Permanent Fund and make a quantum jump on the part of the state of Alaska investing the Permanent Fund monies in the emerging nations around the world, the lesser developed countries of the third and fourth world so that we can tie them to a certain extent to our own economic well-being and potentially act as brokers for more stable economic systems in other parts of the world. This goes on beyond just a simple step of perhaps investing in growth bonds and proposals of other states. I'm talking in this case of going to the poor countries such as Chile or Malaysia or such areas as that with the idea that we act as the broker both as a multi-national corporation, called Alaska, and we do it along the lines of the principal of the Japanese superstate in dealing with Korea, Taiwan, the Soviet Union. I think we have that potential in terms of the long-term net effect the accumulation of principal capital in the Permanent Fund.

I don't have any mechanisms for how to set this in motion. I don't have any real strong recommendations on how to manage it

and how you allow the taxpayers in this state to make the decision to make that kind of an investment. But I think it should be explored at this stage, so that when we've solved our own problems and, so to speak, fed our own poor, then we can extend out to that particular level as a stabilizing economic interest, possibly a competitor to the International Monetary Fund, I don't know.

My second point, and it's sort of a composite of what Mr. Matson, Mr. Seifert, and Mr. Inouye were talking about in terms of the research component. Perhaps one of the ways that the principal from the Permanent Fund can be used in a research component is to create a maximum learning center on the north through the University of Alaska system. The attendant return to the Permanent Fund could be in the form of jobs, just the whole potential of employment through the creative and intellectual exercise in the state of Alaska, broadening of the cultural experience and an acceleration of the cultural experience by using some of that principal to actually create a new category of professional employment for the people of the state of Alaska. This is a potential mechanism, and again, I don't have the details worked out.

My last point is---and this concerns just the structure of fund management---we hear a lot here of the difficulties of the constitutional amendment that was passed in creating the

Permanent Fund and then the management device itself. One of the things that I fear is that we may end up creating a constitutional mechanism that is as rigidified and as autocratic as the Federal Reserve System. I would hope that in creating the management tools for the Permanent Fund that we do not create an autocratic empire for another Arthur Burns. We may have to make a concession in form to the general politics of the people of the State of Alaska. We may have to rely very much on the urban or Fairbanks against Anchorage, when it comes down to that, to managing the fund in such a manner that everybody really has a chance to play in it. Thank you.

GRUENING: Thank you, Allen. Any questions from the committee?

The thing that strikes me, you know you hear two suggestions that were very innovative. I've never heard them before for potential use of the fund. But since it's something that might take place down the road quite a ways, it would seem to me that whatever the fund did between that and the time your proposals, let's say, looked good, it would have to be left flexible for the fund to be able to change directions.

BLOOM: I see that as being absolutely essential. What we cast in concrete could turn out to be a real Catch 22 for the taxpayers, for the consumer in the State of Alaska. We're going to

have to develop a mechanism, I think, to encourage people not to come to Alaska; but at the same time, we've got to develop that same mechanism to give the people that are here a decent lifestyle and employment.

One of the things I'm referring to in this structure is the AFL-CIO national position that was developed last year. Do we develop the concept that business and investment will be the whole purpose of the use of the Permanent Fund or do we use what organized labor calls the most important priority, which is jobs, period? I think that has to be addressed in the context of how we use the money in the Permanent Fund.

DOOGAN: The obvious difficulty with that scenario is that jobs is sort of a neuter word. Since we cannot close our borders if we create jobs, we create jobs equally for people that are here and people who may come up to take the jobs. If you were to attempt to develop a mechanism to sort that out, we would be very interested, at least I would, because it's a question that does not seem to be soluble.

BLOOM: The wisdom of Job I don't have. Again the problem is tossed sort of in your laps for consideration. We've got 20 to 25 years to begin addressing this. I think it should be addressed now.

GRUENING: I think it's the patience of Job; the wisdom of Solomon.

BLOOM: Something like that.

PARR: I'd like to say I'm glad that Allen brought that up because everybody who's been around Fairbanks for any length of time knows that one of the problems has always been we've had a seasonal economy. In the past, we've only had really one major, year-round payroll, and that was the military bases. In the last decade, perhaps, the University of Alaska started to offer us a second one. But that's been it. We definitely could use some sources of year-round jobs in this area---no question about it.

The second point that Allen mentioned, perhaps Mike, how do we keep from being flooded by people from the Lower 48 if we do this. I don't have any good answers but I would hope that we may have learned something from our fiasco with Alaska hire on the pipeline that would permit us to do something, at least, to give a preference to Alaska residents.

BLOOM: Perhaps, we use the interest to pay people not to come to Alaska.

PARR: With bodyguards every hundred yards.

SMITH: Send the Alaska, Inc. money Outside.

GRUENING: The dividend money to stay out.

MEEKINS: Allen, I think you pointed up a problem that continually seems to flare up in front of us and that is that if we do assume that our labor supply in Alaska is essentially the United States labor force, that if we increase jobs up here or the real wage up there that it's just going to increase immigration into Alaska to fill those jobs. The attendant social costs, so that if we create a lot of jobs, we're talking about more people coming up and the real wage is, therefore---the equilibrium wage, therefore---remains the same after that influx; but the only difference is that the demand for government services is vastly increased, so that we'd spend more of our surpluses on normal revenue-sharing and building roads and those types of things.

That seems to be sort of a vicious cycle that we get into. Along that line, I've sort of been, by the discussion we had this morning, I'm sort of toying with an idea and that you sort of touched on when you talked about research. Research does really seem to be within the limits of the Permanent Fund. But we're trying to invest the Permanent Fund we get some sort of social benefit out of it. We may, in-

deed, find a way---somebody may find a way for us to do this without all these attendant problems; but one of the things is that real wages are based upon productivity---that if you increase jobs, if you just increase the number of jobs or if you increase the supply by producing things that are not supplied now, and therefore increase jobs, you're really not increasing the wage. You're not increasing the wage until you increase productivity. You can have a differential wage if productivity in Alaska is increased.

BLOOM: This is what leads me to the concept of investing through the lesser developed countries, but also just by extension, we could also extend into the Pacific Rim, and we can also conceivably grab onto the concept that Mayor Hobson has been talking about, which is circumpolar investment as well. That means if we are funnelling the money into the human employable markets, that are market specific perhaps, then we're in a position to run that money out, manage it well, and not encourage an influx of people at the same time that we're putting people to work in a productive manner.

I'd like to see the idea, say 50 years or 100 years into the future, that the State of Alaska becomes a significant economic force as a stabilizing and pacifying force among other nations, other geographic centers of power around the

the world. This is not an Alaska separatist argument; it's just that I think we can start exercising the economy of the United States, in general North America and other parts of the world. Thank you.

GRUENING: Step right up.

HAKKILA: Thank you. I'm Jack Hakkila. I am an economist. I had the good fortune of spending a great deal of my early adult life studying the field of economics. Most recently, I've had the good fortune of spending the last eight years most of it in business development here in the interior of Alaska. I'd like to, first of all, commend the panel for the conduct of the meeting. The proceedings here, unlike hearings I went to two and a half weeks ago, we are speaking equally.

For a non-economist, I think, the last statement we heard was an excellent beginning. I think we should be looking forward to 50 years. I have run some of my own calculations on some of these figures, and I have seen figures of up to a trillion and a half dollars that could be returned just from oil revenues in 50 years time. Alaska could, indeed, be a stabilizing influence in the worldly, economic community.

I have a short, prepared statement here that I'd like to read.

The Alaska Permanent Fund, through its creation, has two immediate, important connotations. It is permanent and it is for Alaskans. I'd like to footnote a non-economic comment here---I don't know how we're going to limit Alaskans with what we define as Alaskans as people who are here as a state of the 50 states. It reminds me some of Representative, former Representative Bradner's comments I overheard on the radio interview one night before the pipeline, him stating that we should keep the people in Seattle at the airport unless they had a job in Alaska. The interviewer asked Representative Bradner what job he had when he came to Alaska, and his reply was that he was looking for a job. I think that the United States of America was built on Ellis Island, the Statue of Liberty---this was the home that welcomed the tired, the hungry, the poor. I think for Alaskans to suddenly realize that we're coming into great wealth and to limit this wealth to that particular group that happens to be here at the time, is going to be a very difficult thing.

It is important, as a Permanent Fund for development purposes, it is important that long term goals for development of the state be established concurrently. If we're talking about accumulating wealth over a period of 50 years, we must, ourselves, set long-term goals. I had the good fortune of working with some of the native communities over the last year in trying to implement, develop long term goals and objectives for them. I would

hate for us to be guilty of stepping into a long-term venture such as the Permanent Fund without establishing our own long term goals. I think this is one of the things that should definitely come out of these hearings and out of the legislation establishing it. Having as its objective the assistance to Alaskan business development, it is important that the goals be achieved through the administration of the fund by Alaskans.

I read in the papers here about Outside consultant roles being handled by Outside economists, and again, we're doing the same kind of talk that we had using the oil lease money in 1969, the great opportunities for Outside investment. Meanwhile, Alaskan businessmen starve, go broke, and die. I'd hate for us to not remember the lessons of the investment of the funds in 1969.

The basic factors of economic production for several hundred years have been recognized as land, labor, and capital. Land is an all-inclusive term in macroeconomic usage for natural resources. We're all aware that Alaska is abundantly endowed with this one economic factor of production. Similarly, in recent years, human capital has become the all-inclusive term for labor and the other human factors in economic production. In much of our discussion here today, we've recognized this term implicitly through our ventures as such things as research, development, human ingenuity

through invention. Human capitalist today, in textbook term which is all-inclusive for the old traditional term of labor.

While the Permanent Fund considers the disposition of that third fundamental item for economic production, capital, it must be remembered that effectively capital can only be used with the other two resources. We are abundantly endowed with natural resources.

Nowhere can capital be more effectively combined with natural resources and human capital than in Alaska itself. The construction of a single pipeline, which will carry 20% of our nation's energy in oil is testimony to that fact.

Now let us examine where lower 48 investment banking firms, insurance companies, and banks were during the eight years from 1969 to '77, from oil lease sale to oil flow.

I speak from personal experience.

On December 31, 1973, after spending three and half years with New York Life Insurance Company, one of the largest of the American insurance companies, and having submitted for consideration investment proposals on shopping centers, apartment projects, and other projects such as a medical clinic here in Fairbanks, at no cost to the company (I was doing this as a service for my company and my clients), I was told that New York Life would rather invest its money in projects associated with another pipeline to Texas. Alaska is too speculative. When the vice president making this statement was asked which is more speculative, investing

where the oil is running out or where the largest resources on the continent are being tapped, a blank stare was the reply. The mortgage department covered its annual meeting and Alaska was not on the agenda.

Having learned from three and one half years of experience with the leading insurance investor in Alaska that investment in interior Alaska included the 1967 power plant at the University of Alaska and no more, that New York Life simply was not the vehicle and neither were any of the other insurance companies. At that time, New York Life was the leading insurance company in interior Alaska. In 1974, I entered a partnership to find investment funds for Alaskans.

At the Bank of America, one of America's leading banks, a vice president admitted in August 1974 that the company had twenty billion dollars in loans it would like to consider in its own backyard. They did not have time to consider investments in Alaska. Once again, sound economics could not justify business decisions.

In 1975, I worked with the firms of Merrill, Lynch, Pierce, Fenner & Smith in their California Street office in San Francisco. I worked closely with the investment banking division there in San Francisco and with the bond offices in New York. In May of 1975, the head of this firm's office doing business in Alaska told me that if anyone comes from

New York to underwrite energy related issues out of the North Pacific region, they would first come to the Seattle area and underwrite issues related to nuclear power plant construction there.

Personal experience in securing investors for the greatest investment experience in history through lower 48 institutions has not been good. Alaskans should not be asked to commit their development funds to these institutions for their decisions, but the decisions should be retained right here in Alaska.

As far as what could be done immediately at the present, turning back to our world of reality today, Alaskans are being asked to transmit the most fundamental resources to lower 48 markets without processing. An immediate opportunity exists right now for investment in petrochemicals. Five million dollars would provide a pilot petrochemical plant. Within a matter of months or a year, we could all be carrying around little samples of petrochemicals. We could be marketing them to other countries. People could take some pride in developing the petrochemical industry domestically here, just as we did a few years ago carrying these little vials of oil from Prudhoe Bay before the oil pipeline went on stream.

Of course, this is a gigantic industry. I've been told by one of the, well, by Ed Hayes of the Northwest Pipeline Corporation that we could foresee a one billion dollar plant per year in the Tanana Valley for the first ten years of the functioning of the Alcan pipeline. This is the economics of it. It remains for us to do it

here in Alaska.

At that point, I'd like to take exception to some of the statements in your study right here. Arlon Tussing is quoted as saying that usually it makes more sense to invest the major portion of the fund outside the state. One of the major threats of Dr. Tussing's testimony was that there is no function for Permanent Fund investments in major industrial or commercial enterprise in Alaska, unless special reasons to subsidize them. Our petrochemical industry doesn't need a subsidy; it's a very profitable industry. And we do have in Alaska the last great domestic resources in these petrochemical basic factors, ethylene. I'm sure many of you are aware of this. The discussion has been rather prominent in the last several months.

The development fund could provide the basic financing for a myriad of projects which leveraged---we heard some testimony on this this morning---would multiply its value. Those projects planned for the oil pipeline and never built such as airplane hangars, hotels, and apartments might be built through adequate mortgage financing. This financing has not been available to Alaskans because past experience has been too short to justify lending based on traditional banking evaluation.

Over and over a couple years ago, we met the answer when

we brought the best Alaskans to bankers in the lower 48. We met the question they don't have three years business experience. Yet we were asked to build the largest project in history here. We have the largest airlift going off the airport here in Fairbanks during the pipeline construction and we couldn't get hangars financed. We couldn't get helicopters financed for Alaskans because they did not have the business experience, although they had the flying and the Alaskan experience that it took for these projects. So traditional banking evaluations are not necessarily sufficient.

Now let's turn for a moment to creative financing. I'd like to enter some of my own thinking here. Where can the greatest return be secured for society through the operation of the private enterprise system?

It was mentioned above that the basic factors of economic production are natural resources, human capital and capital. Alaska will now have both natural resources and, through the creation of the Permanent Fund, capital. How then might the Permanent Fund be used to create human capital?

I am proposing here the formation of an exchange for patentable ideas.

Our system of economic enterprise operates through a system of organized markets. Stock and bond markets and commodity markets operate by bringing investor and speculator together in an organized fashion to bid on tangible and intangible products, such as

coffee, sugar, or wheat---tangible items and intangible such as stock certificates, representing the value of their particular company.

The only provision made today to capitalize on that most fundamental of economic resources, inventive ingenuity, and we heard reference to that this morning, can be made through the incorporation of its value in the price of stock in existing companies. Research and development is generally thought of as being a function of the universities or private companies. Yet ingenuity, ideas come also to the people who are outside the mainstream of organized production. Necessarily so, to be a creative person, he must be outside or have time to think and come up with the ideas. Fortunately, we in Alaska here, especially in the Interior are endowed with a number of these types of individuals; because we have the time here to think and do these things. A Wall Street Journal article about a year and a half ago documented a television program called "The Inventors in Australia"---this, by the way, was a most popular program in Australia. Each week a family of four inventors would be brought on with their inventions, and the best one was selected. More often than not, the best inventions came from the outback, from the outlying regions; because these people had the time to think.

The inventor today is afforded patented protection for a period of 17 years by the U.S. Government but his patents have no exchange value on an organized exchange unless their value is incorporated into the value of stock of a company, which is traded through the stock exchanges. In the case of a patent whose value lies further down the road than 17 years, no incentive lies in its disclosure.

I'd just like to comment here---I think with more testimony in all of these hearings this summer on D-2 hearings here---we hear considerable amount of testimony on preserving traditional values. While I think that it's deplorable the bowhead whale, for example, will not be allowed to be hunted out here, there are many people in society who like to go to the stars. The picture "Star Wars" and its reception in Anchorage, I think is adequate testimony to this. People love to think about 50 years down the road, 100 years down the road, when we're travelling not just to the planets but interstellar travel. If an inventor were to have such an invention today, he has no incentive for its disclosure. It's very difficult to uphold the patent protection of 17 years on an invention to have something that's utilized 50 years down the road to want to disclose it. In many cases, he may be laughed at.

I mentioned earlier, the most creative of our inventors are in Alaska. The Alaska Permanent Fund could establish a provision to form an exchange for patentable ideas. Going back to the type

of thing that we were talking about earlier in commodity exchanges, the stock and bond exchanges, a system of speculative houses could be established that would bring investor and speculator together and purchase the ideas of the inventor, whereby he then would have immediately funds at his disposal to go out and get another idea on the market. That's the idea of organization of dependable ideas.

In conclusion, creation of the Alaskan Permanent Fund for development connotes the long term goal of the economic development of the State of Alaska, most importantly, the people of the state. This goal can be achieved best by using the capital of that fund and combining it with the abundant natural resources and the creativity of the human resources of the residents of the State of Alaska. Thank you.

GRUENING: Thank you very much. Could you stay for a few questions?

HAKKILA: Sure.

CARPENTER: Thank you. I missed your name.

HAKKILA: Jack Hakkila.

CARPENTER: Sure. Do you have a present affiliation?

HAKKILA: Presently I'm consulting. I just concluded---I came in the day before yesterday from Galena. I've been working with the Tanana Chiefs and the University of Alaska. We established an agricultural experiment station there this summer and one in Ruby. I'm also consulting on some other ventures in Alaska and internationally.

GRUENING: Charlie.

PARR: Mr. Hakkila, you mentioned something early in your testimony about, if I understood you correctly, about perhaps using Permanent Fund investment to get petrochemical off the ground. My understanding is that right now, in any kind of energy market, that it is seller's market. We have a worldwide shortage of energy. Those people who have energy are in the drivers's seat. It's not a buyer's market, but a seller's market. If that is true, is there any reason that state money, whether it's Permanent Fund or any other kind, should be used? If it is a seller's market, shouldn't the private companies be jumping at the chance to put their own money into it?

HAKKILA: My point is that we should be jumping at the chance to put our own money into it.

PARR: In other words, the state would be the one who would

be selling this and not the private company? It would be running the petrochemical complex, for example, and selling the product.

HAKKILA: No. I am speaking of state support for private enterprise, domestically created private enterprise here in Alaska. Let our own people create the industry.

PARR: You are saying, in other words, instead of letting Dow Chemical or somebody come in here and set up one, that the state could furnish the money so that local Alaskans then could establish this, instead of having a company from Maryland or Texas or somewhere.

HAKKILA: That's right. Let us take the lead, and let them participate to whatever extent they would like. For example, about three weeks ago, I was told by a representative of El Paso Gas that if we were to go into this type of an arrangement, they would be more than happy to provide us with all of the expertise in petrochemicals. On the other hand, at such time as we wanted to, they would enter into an agreement to finance some or be a participant in it. They would show us the way and help us create our own industry here.

PARR: In other words, the main thrust of what you are saying, and this is what I missed, I guess, is that the principle ownership would be Alaskan ownership and not out to the state ownership.

HAKKILA: That's right. It could be through the Permanent Fund, and then, when I mentioned, you know these figures generate and they are tremendous figures, because nowhere in the United States, have we had these types of resources before. These investments will also generate income or could generate income for the Permanent Fund. Nobody is going to get these projects off the ground like Alaskans, because we'll have our own interests in running it.

PARR: You are not suggesting in any way a subsidy of the petrochemical.....

HAKKILA: No, sir. This is where I take exception to Arlon Tussing's statement.

MEEKINS: I guess what you are getting at there is that those projects are financable, but not to the people in Alaska. The banks, because of their requirements, you're talking about three years of experience and different other kinds of requirements that the banking industry has.

HAKKILA: That's right.

MEEKINS: That those projects are financable, they don't need to be subsidized or anything, not finance them for the people that you think...

HAKKILA: That's right. An Outside financial institution will not finance projects for Alaskans who have no experience. But the experience can be brought in. For example, a venture with El Paso Gas---they have an El Paso Petrochemical Division, and they will provide us with the assistance right here in building a domestic petrochemical industry.

MEEKINS: I find that to be an extremely interesting comment or a point because, as you noted, one of our consultants, Arlon Tussing, said in his memo to the committee that in his view there really isn't a capital gap in the sense that he said that he felt that all sound, in most cases, sound projects could find financing. But what you're doing is making a distinction between financing for whom.

HAKKILA: What I am saying is that Alaskans can do these projects. It's the same thing I was saying three years ago.

We couldn't get our projects financed up here because we did not have the experience. Then I'm saying we can start small---just like this agriculture experiment station we started in Galena and Ruby this summer.

The state can develop projects. You start out with a small plant. A five million dollar plant could produce a lot of petrochemicals and give us experience.

MEEKINS: How would a development bank protect itself? Certainly they could say that the project itself was a sound one. I know there was a reason for the requirement of business experience, and that's to be sure that the people know how to run that type of business. How would the development bank protect itself, if it were trying to develop things in Alaska that otherwise would be done by multi-national corporations?

HAKKILA: My point is that they may not be done by multi-national corporations. They just may simply not come here. They may go to Saudi Arabia or some other place. This has been our experience, because we have not taken the lead in petrochemicals to this point. I think there has been some testimony that several of the large multi-nationals came to Juneau, wanting to work with the state, and found no encouragement. I think if we had the lead here that that problem would be solved. I think you could be assured

that with the cooperation of other companies that have expertise that the projects could be built.

CARPENTER: I guess I am puzzled by something. If we don't go outside with any of the investment, for whatever reasons, whether it's because we weren't treated properly, historically by outside banking institutions or because we want to simply use the money inside Alaska, for whatever reasons, if we were going to invest it all in Alaska, can---do you think that our very small economy in Alaska can absorb that kind of money? I picture a guy somewhere in the management structure of the Permanent Fund with a desk full of two feet of applications and analyses trying to pick winners and form ventures and projects fast enough to keep absorbing the money. Do you think really we can...?

HAKKILA: You think it would be a problem to dispose of the money?

GRUENING: Prudently.

CARPENTER: Not dispose of it prudently.

HAKKILA: Prudently. I don't think so. This is what I am saying. There exists a need right now to finance, or pos-

sibility financing a world scale petrochemical plant of a one billion dollar investment per year for the first ten years of the gas line in the Tanana Valley. I don't think you'll have that kind of money in the Permanent Fund.

GRUENING: Probably not. Mike.

DOOGAN: Excuse me. A couple of questions. At one point, you said that Alaska businessmen starved, went broke, and died--do you mean by that that there have been failures of Alaskan businesses that have been caused strictly by a lack of being able to get capital?

HAKKILA: Yes, sir. And I could document the cases that I have worked with and individuals. I don't care to do so publicly, But I'd be glad to discuss this with you.

DOOGAN: That's fine. I just wanted to make sure that I understood that. Would your---the second question is would your characterization of the outside banking community extend to the Alaska banking community as well?

HAKKILA: No. Not necessarily. The Alaskan banking community traditionally has had a very small amount of capital for its dis-

posal. Perhaps, they could be a part of the solution in this case. The Outside banking community has suffered from a lack of education on economic opportunities in Alaska. They just cannot comprehend or have not traditionally been able to comprehend the economics as it exists within the State of Alaska.

MEEKINS: One more question. Are your comments, your disagreements with Arlon's remarks only limited to large scale projects or does it apply to small projects also?

HAKKILA: No. No. Small projects also. There's a great need for the small things. I'm speaking of hotels, airport hangars, apartment projects. We were not able to get the projects financed. Fairbanks is living testimony. When the pipeline came, we did not have adequate projects. Prior to the pipeline, even after Senator Gravel pushed it through the Senate, in July of 1973, we were not able to get financing for capable individuals.

MEEKINS: Was that the same reason, I'm assuming that the projects fit the format that the banks wanted in the sense that the projects themselves looked like they were sound, and that they might produce a handsome profit, but there were

some other structural deficiency, like they weren't---people didn't have quite the right background or something like that. Was that the problem?

HAKKILA: Alright, it's practically a problem, as I mentioned earlier, of the individuals themselves, not having had sufficient background to do project work on the scale being asked of them for the pipeline. What was the other question?

MEEKINS: Well, that's sort of what I'm getting at. I'm trying to think of, comparing your remarks with what I remember from what Arlon's remarks were and trying to see whether or not they're---you see he makes a good case for the fact that if we invest money in small businesses, that we're just displacing capital that would otherwise go there because we would limit ourselves to the same types of investments the banks would.

HAKKILA: We don't have the capital available within the state for those types of ventures in the economy that we have here today. We just don't have it.

MEEKINS: You see, your comments sort of jive pretty well with my intuitive feeling and what a lot of businessmen tell

me that that's, they claim, of course, they're turned down by banks and they claim that it's not true---there's capital available for good investments.

HAKKILA: It is not true. You could study the amount of public capital, capitalization in Alaska's banks. In comparison with the funds that you will have available through the Permanent Fund, the capitalization of Alaskan banks is very small.

GRUENING: I just want to remark that I'm glad you analyzed the report and had a comment on Arlon's report, because the consultants' testimony or their views are not necessarily those of the committee. We do hire consultants to toss ideas out there, but in the end, it's the people on the committee who have to decide.

I have one question. You mentioned that the tremendous capital needs that, say, petrochemical would have like a billion dollars annually. At the same time, you mentioned the fact that there are needs for smaller scale investments, hangars and so forth. Given the fact that, as you pointed out, the Permanent Fund probably isn't large enough to even take care of the petrochemical capital needs. Where would you place emphasis? It occurs to me that you can't do both

HAKKILA: I would place emphasis on leveraging the money by taking and using that as guaranteed money and getting Outside participation in the ventures. I'm sure that participation would be willing participation, if Alaskans took the lead and went after it.

DOOGAN: I would assume that one of the reasons behind banks' refusal to make a loan in Alaska to somebody who didn't have two years business experience was that they would consider it an unacceptable level of risk. Now that may just reflect their lack of knowledge of Alaska, but would you---what would your opinion be to a statement that it would be relatively riskier, in terms of risking the money, to make investments in Alaska as opposed to Outside investments?

HAKKILA: Well, I'm referring specifically to the pipeline community set in '73 and '74 and some of this personal experience. It just isn't, was not, good banking. They did not understand what we had here. They were looking at 20 year loans that paid themselves off in five years, but they couldn't understand what was going to happen here. I would venture to guess that if time goes by, we'll have greater participation from Outside investors here certainly. But we can take the lead is the only point I'm trying to make here. To be in control of our own destiny.

GRUENING: Any further questions. I'd like to take a short break here. Representative Carpenter reminded me in Anchorage that I'm sometimes neglectful of that. About a short five minute break. Then we'll come right back.

BREAK

GRUENING: I think we can start now. We have return reservations at 5:30. I'd rather stay here in Fairbanks tonight but we have a hearing tomorrow in Anchorage. Either that or we've got to catch a later plane.

PARR: They have a 7 o'clock in the morning flight.

GRUENING: Thank you, Charlie. We're running this kind of like a Quaker meeting. If anyone has anything to say, they can get up and walk to the podium. Yes, sir.

HOPKINS: My name is Donn Hopkins and I reside at 5.3 mile Chena Pump Road, just out of town.

Mr. Chairman and members, I do believe that the policy of distributing natural resource income directly to Alaskans, as proposed in the Alaska, Inc. concept, is far superior to the current policy of allowing the state government agencies

to spend that income. However, there is a third alternative for the use of non-renewable natural resource income, which I favor over the Alaska, Inc. concept. That third alternative is to use such income as a loan insurance fund to encourage Alaskan ownership of new buildings and other land improvements in Alaska.

I have a specific proposal to make in this regard:

1. The Permanent Fund (and preferably the entire non-renewable natural resource state land income) would be invested in U. S. Government securities, with the income therefrom being added to the fund to help compensate for the reduced real value of the fund over time due to inflation.
2. These securities would be used to guarantee 100% of the value of loans made to Alaskans for constructing and equipping new industrial and commercial enterprises and residential facilities in Alaska.
3. The loans would be made through normal banking procedures and could pay for up to 95% of the value of the project used as collateral.
4. A fee would be charged the borrowers, sufficient to cover the losses due to loan defaults plus any loss in real value of the Permanent Fund due to inflation, beyond that covered by the U. S. securities income.

5. Annually or biannually the uncommitted balance in the fund would be divided equally among all persons who vote in the general election to use as guarantees for loans.
6. Such amounts could be saved for a five-year period, but if not used within that period, would be returned to the uncommitted balance for reallocation.
7. The loan guarantee amounts allotted to each voter would be non-transferable, except upon the death of the owner and then only if they had been used.
8. As loans are repaid, the guarantee amounts would be reduced proportionately and the reductions returned to the uncommitted balance.

The general policy and specific proposal, which I favor, has two major advantages over the Alaska, Inc. concept:

1. It does not establish what in effect is a guaranteed annual income precedence. It does not pay people just to live in and endure Alaska.
2. It does help all Alaskans, forever, not just while the natural resource income lasts, to invest in the progress of our state, and through such investments, improve their own lives and the state as a whole.

This policy and proposal discourages dependency and encourages creative thought and constructive action by all

Alaskans forever. It encourages Alaskans to join together in the promotion of projects to improve their state, their communities, and their lives. Thank you.

GRUENING: Thank you. That was an intriguing proposal. Any questions? I have one.

First of all, do you have investment banking experience?

HOPKINS: No.

GRUENING: What is your occupation, if I may ask?

HOPKINS: I have some log cabins that I rent out. Before that, I used to work in government planning offices, including I was director of Planning and Research for the State of Alaska in their State Department of Economic Development and Planning. I worked as planning director here in the borough, and I've done planning consulting for the City of Fairbanks. I have an educational background in planning.

GRUENING: Could you explain what you mean by loan guarantees and how they would work?

HOPKINS: Well, in the event that the collateral was used by

the borrower was insufficient to cover any loss that might result from its default, then the state would have to pick up the difference, and that's what would be guaranteed with that difference. So that any person who wanted to loan money in Alaska would be guaranteed that he would get that money back no matter what happened. That would encourage Outside money to come into Alaska. We would be able to get a great deal of capital up here that we do need. Ever since I've come to this state, it's been a problem to get Outside investors to bring their money up here where they don't know what's happening, instead of loaning it out down in California or New York, where they do know what is happening. By guaranteeing their loans 100%, they would be better off than they are at home. Therefore, we would be able to get all of the money up here, I think that we'd be able to guarantee. We'd be able to guarantee quite a lot. I don't know what the leverage would be on something like that. But if you could get five times the amount of money that was in the Permanent Fund, that's a lot better than just loaning out the Permanent Fund. You could probably do better than that.

GRUENING: To the extent that these loans weren't paid back, you'd have to sell the securities or hand them over to the people that make loans...

HOPKINS: Well, in theory, you would have the securities there to sell. But if you operated this program on sound banking principles and didn't make a lot of irresponsible loans and if you did charge a fee to cover the default, just as the Federal Housing Administration to cover defaults on their house loan insurance program---it's the same idea as FHA, the only difference being that it's extended to commercial and industrial loans as well as housing loans---but this fee should cover all of the losses, so that the Permanent Fund would remain intact. But it's there to give a feeling of security to people who would loan money up here.

GRUENING: Who gets charged the fee?

HOPKINS: The borrower---just as the borrower is charged the fee on an FHA insured loan.

GRUENING: Who makes the decision as to whether the loan that this individual Alaskan or group of them wants---is it a good one?

HOPKINS: It would have to be done, I think, as far as just what I would say, just normal good banking procedures. I would hope that it could be worked out with the existing banking industry in Alaska for them to handle, to do all the paperwork, all the investigations of these loans.

GRUENING: If the Permanent Fund, in essence, guarantees all the loans, what incentive does the bank have to make sure it's a good loan? If the deep pocket, the one who has to ultimately pay it back if the borrower doesn't, is the Permanent Fund, why wouldn't they loan it to a guy who has---wants to grow watermelons on Mount McKinley?

HOPKINS: Well, I suggested that the loan be good up to 95% of the value. If the bank wanted to pick up a little extra on these loans and loan beyond whatever was appropriate for the state to guarantee, they would have that to lose.

GRUENING: So the borrower would have to put in some equity.

HOPKINS: Either the borrower would have to put in some equity or the bank would have to take a second mortgage. I suppose if you found one bank that was doing a bad job, that had a lot of defaults, you would have to cut that bank out and not use them any more. Or you may want to set up a special arm of government that was separate from the banking industry, but I don't favor that. I would think that the banking industry would be responsible.

GRUENING: Okay. Do you have a written statement?

HOPKINS: Do I what?

GRUENING: Do you have a written statement?

HOPKINS: Yes. I do. I'd be glad to give you a copy of it.

GRUENING: Incidentally, the last gentleman, Jack Hakkila, I think, did you give us a copy of that? Or could you?

HAKKILA: I don't have a copy, but I'd be glad to run one off for you.

GRUENING: Thank you very much. Are there questions of the witness? Russ.

MEEKINS: You, as I understand it, you limited this proposal to people who voted in the general election---

HOPKINS: Yes.

MEEKINS: Why did you do that? Which election are you talking about?

HOPKINS: The biannual elections.

MEEKINS: The one coming up then?

HOPKINS: Every two years.

MEEKINS: It would change as the elections change.

HOPKINS: Right. But the, I don't know, the amounts might be allocated annually rather than biannually. Either way it would work.

MEEKINS: Why did you happen to choose that as a....?

HOPKINS: As a vehicle?

MEEKINS: Yeah.

HOPKINS: It's just an easy way to identify an Alaskan. This business of having people have to come in and justify their residency here seems to me like it's going to be very difficult to do. To provide evidence---because I've seen so much of these people coming in from Outside to work on the pipeline getting these residency cards, even foreigners, who don't even have a work visa in the country, work up there.

MEEKINS: On the other hand, we have the problem in Kodiak,

people in other areas of the state, people that have fished for or have claimed to have fished anyway, for 15, 20, 30 years up here, whole families, were not eligible to receive, to get limited entry permits. So we find that whatever, however we try to define who is eligible for something, there is always a tremendous problem.

HOPKINS: I think, once a person established residence up here and becomes a voter, he can maintain that residence even if he doesn't stay up here all the time. One thing that's important about this program is that all of the money would be invested in Alaska. You wouldn't take any of it Outside. It would be invested in permanent facilities. It wouldn't be spent for ongoing operations. So it would actually increase the total capital investment in Alaska. It would be done without decreasing the Permanent Fund.

GRUENING: But the primary investment, the investment in, say, government securities would be Outside.

HOPKINS: That is just so you get a little interest on it. The U. S. securities because they go down, we all go down. Some of these so-called blue chip securities aren't so blue sometimes.

GRUENING: Charlie.

PARR: Maybe I misunderstood something, Donn. If I understood you rightly, you would in initial investment would all be---the complete thing would be U. S. Government securities. That would not be simply this 25%?

HOPKINS: Well, I don't think any of the non-renewable natural resource income should be spent on ongoing programs. I think that should all come out of tax---or other current revenues. However...

PARR: All the money would go into this.

HOPKONS: However, since you are addressing yourself to the Permanent Fund, I'm saying that all of the Permanent Fund should be used as support for this loan program.

PARR: Well I thought, I understood what you were saying was that we should take that Permanent Fund and put into it all of the money that comes from the non-renewable resource areas.

HOPKINS: Yes. I'm in favor of that too.

PARR: Then, the second point, but...so what we'd really

be using in the state would be the income from the Permanent Fund. The income from these government securities. Is that right?

HOPKINS: In a way, but not directly. We'd be using the income from the securities to offset the loss of the value of the money due to inflation. We want to maintain the same purchasing power of the fund. We don't want to lose the purchasing power of the fund over time, which we would do if we only maintained the dollar value.

PARR: Then the, instead of using the income as a loan fund, what you'd be doing is simply the securities themselves would be pledged as collateral.

HOPKINS: That's correct.

PARR: Where would the money come as actual cash?

HOPKINS: The actual cash would come from private investors from anywhere in the world. Whoever wanted to come up here and be sure that they would get their money back, because we guarantee their loan by 100%. There'd be no chance of loss.

PARR: So the state itself would not need to, say, appropriate money every year to put into that loan?

HOPKINS: No. There'd be no appropriation at all. No tax cost at all. The whole operation would be self-sustaining, and as the Permanent Fund grew from, you know, additional income from non-renewable resources, there'd be more loans that could be guaranteed. Of course, there'd be more demand too as the state grew.

PARR: Thank you. I'm clearer now than I was initially.

GRUENING: Mike.

DOOGAN: I just want to get this straight. I think you said that at some point, you would decide whatever money hadn't been used to offset inflation would be divided up equally among current residents based on their voter registration, but that if they did nothing but save it for five years, they'd have to give it back?

HOPKINS: No. I didn't suggest that they get any cash out of this fund at all. All I suggested was that they get a loan guarantee that they could use. If they wanted

to borrow money in the private sector. That's all they're getting is the guarantee of these loans.

DOOGAN: I see.

HOPKINS: An equal share, a guarantee that's available.

DOOGAN: Well, then anybody who got a loan guarantee and didn't use it in five years, he'd have to give it back to the fund.

HOPKINS: Well, it would just revert. If he didn't use it, if there's no point in having it just hang fire indefinitely. You want to put it to some use.

On the other hand, maybe a person would like to think about what he's going to invest in for awhile, whether it's a house or some business or a share of an industry or something like that. But that way, you'd find all Alaskans trying to figure out how they could get into business in Alaska and get their own homes. It would, I think, really would stimulate our economy tremendously up here.

GRUENING: I think one problem might be is not everyone is going to have some collateral. I guess it's finding the collateral for the loan.

HOPKINS: Well, that 5%. You've got to be able to save a little bit on your own. But you know, you can start out small. It doesn't have to be a big investment.

GREUNING: Any further questions?

MEEKINS: If people over 18, I guess it is, can vote in the general election, it seems to me, of course these are very small parts of what you are saying, I suppose, but just in regards to that five years, I'm not sure that by somebody knowing when they're 18, that they'd know what they want to do by the time they're 23 really.

HOPKINS: I think there are a lot of people who start out at an early age and, you know, have made it by the time they're in their early twenties. It depends on the individual. Maybe all their investing in is a home or in shares in an apartment house or something, just they can get started building up some capital of their own. This is the important thing. They'd have some more incentive to save part of their income than to just spend it on consumptive items.

GRUENING: Any further questions? Thank you very much.

HOPKINS: Thank you.

GRUENING: You next? Great.

COLLETTE: My name is John Collette. I live in Fairbanks on 3 Mile Sheep Creek Road. That's just out of town. It's not often that we get invited to speak on things that we know nothing about. So I'll take full advantage of it.

GRUENING: We're invited to that all the time. That's a prerequisite for the job.

COLLETTE: Like everyone else, everyone I've talked to has very loose ideas about everything and because it's governmentally orientied, we're hesitant to bring this up. A lot of the ideas I have emerged from what I do every day. I'll run through a few of those ideas that I've just been kicking around.

I'm a life long Alaskan and I'm proud of it and all this. This precedes everthing I'm going to say. What I'd like to see for the Permanent Fund generally is us not to relinquish our responsibilities. We shouldn't give our responsibilities, meaning our money, to other people to invest. The good and the bad that they do with the money is not their moral burden; it's ours because we made it. It's our money. I don't think that an investment banker on Wall Street is going to be taking that kind of morality in mind and while we may here. How to enact that is a very diff-

icult thing. I don't have any conclusions there.

Also I'd like to see Alaska remain somewhat as it is, encouraging the same virtues that Alaska has encouraged. I enjoy them because I embody some of them. One of the things that allows me to do this is the land, of course. When we have another 5 or 6 million people in Alaska, that land isn't going to be available and these virtues won't be encouraged. So I think anything that's done with the Permanent Fund should encourage as small population growth as possible. The petrochemical industry in Fairbanks is anathema to that.

One of the ideas I have about investments is in the tourist industry. Now, right now, as we're told from the federal government that they're going to be making all sorts of national parks in Alaska. Well they'll also be taking a lot of the tourist dollars from the private industries, I think they'll be encouraging private industries to produce capital things in order to compete with national parks. They'll be apart from metropolitan areas. We won't have transportation systems to them; we won't have gas stations along the way or eating places. They'll be flying in and flying out or maybe by boats.

I think that the state of Alaska should go in with some of the Permanent Fund money and invest it in the tourist industry. One of the things I have, an idea I have, is building

a sternwheeler for the Yukon River, a huge, huge boat painted white and make it very grand and charge an exorbitant amount for tourists.

GRUENING: I'd like to join the venture.

COLLETTE: Keep people on the boat; they'll only dock in certain areas. Places like Tanana will obviously change, but they're not so good right now. There are other things too. But that's the only specific answer I have for the tourist investment.

Again we're generally, health in Alaska is really a big problem. I think with our Permanent Fund, we've got a chance to affect that positively. Another thing we can do is create a preventive structure in medicine. A structure of preventive medicine alongside the existing medical facilities. The existing people, the doctors, the clinics have grieved themselves to a crisis situation in medicine and have put very little of their energy in preventive medicine. We can, as a state, do this on an educational level, in schools and in colleges, and just create a healthier environment.

Let's see. Also too, I just recently got back from Europe. One of the things I saw there that I was most impressed with was the economy of Denmark. The Danish I've always responded to really well. I love their architecture; I love the products that they produce; I like the people too. But they've got a country there

which is poor in natural resources yet they have a fantastic standard of living through the exportation of their talents and their brains. Their people are very energetic and inventive. I'd like to see Alaska create an educational structure, through the Permanent Fund, which would create a net exportable talent.

Another thing I'd like to see too is, an interest I've had for years is in housing, and I'm teaching a course at the Community College in cold weather design in housing. I see a huge area there where we don't have the expertise available, because no one has bothered to look at Alaska, when they design houses. I have, and other people I know have, and we're going to try to be teaching these things to the community.

But there are a lot of other areas within technology, which Alaska gets ignored. The United States is temperate and all the resources temperate...their research is temperate. We get overlooked in our automobiles, our houses, our clothing, everything else. I'd like to see more research being done to create an Alaskan technology, which we may be able to export too.

I guess in conclusion I can say that I'd like to see an Alaska, Inc. being made. I'd like to see a more socialist

state. I'd like to see a socialist state investing in people and hopefully we can take this investment and find out a few answers about what to do with our Permanent Fund. We can actually invest in wisdom. That's all I have to say.

GRUENING: Thank you. Are there any questions from the committee? You just mentioned one thing about investment bankers. I think Bob Weeden probably touched on it when he said he'd hire a mechanic to fix your car but you don't necessarily ask him where you're going, where you should go with your car.

VOICE: Talk into your mike, will you? We can't hear you.

GRUENING: I'm sorry. Okay. I was commenting on an earlier testimony that it was pointed out that you have a mechanic fix your car but you don't ask a mechanic where you want to drive it. It may be that the institution would use expert advice in terms of investment counselling. But I think your point was that they shouldn't be necessarily fixing the directions of the Permanent Fund.

COLLETTE: Definitely. Right. We have at our disposal much power. I can see a lot of destructive power there.

GRUENING: Any other questions? Thank you very much. Yes sir.

DESPAIN: My name is Glen DeSpain. My address is Box 1255, Fairbanks. I live at 2 1/8 mile Chena Pump Station Road.

In December of 1969 or January of 1970, before our local legislators went to Juneau after the windfall that we got on Prudhoe Bay bonus lease sale, a group of people, a large number of Fairbanksans met with the legislators in the Chamber of Commerce log cabin in the basement. It was a packed house. To the man, everybody agreed that we had no right to spend this money from the non-renewable resources that we were taking out of Alaska. We should live off the income from it. Well, I don't---between the time that we met with them and the time that they got out of Juneau, they had taken pretty much care of the \$900 million.

I don't know how many billion we're in the hole now with the type of bookkeeping that our government uses. They sell oil in the ground and they'll take it off---in a few years from now when they take the oil out and, of course, according to our state constitution, it's against the law for the state to go in debt. However, there are ways of getting around that. They have certainly found all of them, I believe.

As far as the Permanent Fund is concerned, I think that every penny that comes into the state from the sale or the bonus or the lease of non-renewable resources should go into a permanent fund. And I mean a permanent fund. I don't think

it should be distributed to everybody that's lived here for 30 days and went down and registered to vote. That is really a socialist concept.

I, as you probably know, am not a socialist by any stretch of the imagination. I think that the government should be forced to live within the income off of this. The interest or whatever is derived from this Permanent Fund is what our government, that along with whatever taxes or levies they decide---the legislators decide to put on things is what the state should live on. I don't think that we have any right to spend the money that comes in from these non-renewable resources.

It'd be just the same thing as taking Southeastern Alaska and selling it to some other country or some other entity other than the state. Lose all control of it; I mean we don't own it any more; we sell it; and we live off the money that we get from it. I think that future Alaskans have every right to these resources that we are exploiting today. The only way that I can see that this can be done is to keep that money intact and live off the income from it. It's just like a fellow that has a tree farm; he doesn't just cut down every tree he's got and spend all the money. He harvests what he can and lives off some of the income, but he plows some of it back. In this way, we wouldn't be plowing it back but we would be keeping it intact. I'm very much opposed to the tremendous growth of our state government since 1969.

As far as giving the money back to the people, any time the government takes from whatever source and gives it back to the people, the people get very little of it. I mean very little---just crumbs. The bureaucracy eats up the money. I can foresee a tremendous amount of people working for the state figuring out who's eligible and who isn't eligible for this bonus or Alaska, Inc. or whatever you want to call it.

An example I'll give you, as I had a discussion with the governor, two or three of them, while he was in town here a couple, three weeks ago. One particular day I went down to the license bureau to get a driver's license. It had expired some time before I became aware of it. I was the seventh person in line. There were six people ahead of me. I was number seven. There were six people working in the driver's license section of the state building down here. They had four of these big computer consoles and desks and everything. It was 50 minutes before they issued the seventh driver's license. I was the seventh one. Fifty minutes for six people to issue seven driver's license. Now the state took in \$35 on those seven driver's licenses. As I pointed out to the governor, there's no way that we can afford to issue driver's licenses under that program. I also told the governor, I said, "I've seen glaciers move faster than some of

those people back there." A couple of them, I was a little surprised that they were still alive. But I guess they must have been because they left at 5 o'clock. But the point I'm trying to make and I'm trying to put a little humor into it is that the state can't do anything, even give back money, without losing money on it.

I think there's a drive afoot here to lock up this money into an area where the legislators can't get all of their little pet social projects going. I would hope that we can do that, and when you're considering this Permanent Fund, I would like to have you consider the total income from non-renewable resources that are sold or leased or royalty or whatever we get off of it, put it into a fund and then get some kind of a thing into the framework of our government, the constitutional amendment or whatever, that that money cannot be spent. It has to remain intact.

The interest or the income from that money is the only thing that should be used to live off, if you will, to maintain our government. That and whatever money that they take in in taxes---income taxes or whatever.

I'm not in favor of doing away with the income tax. If we do away with the personal income tax in the state---man, what a haven this will be for the deadbeats who want to come up here and live off of our income. I'm not in favor of that in any way.

This revenue sharing is another thing I'm not real happy with

at all. All it does is encourage local governments to build up a huge bureaucracy like we have here in the North Star Borough, and I suppose Anchorage has got the same thing. Then pretty soon the state gets everybody hooked on spending lots of money in the local government. Revenue sharing sounds awful good. But boy, it's sure an awful headache the next morning.

I think that pretty much covers what I have to say, I didn't write anything out but my main point is that I think all of the money from all of sale or lease of non-renewable resources should go into the Permanent Fund. The Permanent Fund should be absolutely inviolate. I don't think it should be given back to the people in the form that I've heard of here while I've been here, in loan guarantees or anything else. Boy that could get to be an awful kettle of worms.

Some bank for whatever reason makes a bunch of loans and the state has to pick it up. There's nothing in there to ensure that those loans are going to be sound investments. The state government should be forced to live within the income they get off of this Permanent Fund.

If they had kept that \$900 million intact at the time it was producing \$53 or \$54 million a year. That was more than the state budget was the previous year. But of course, it isn't any more, because they spent that plus income off it and everything they could hock from in the future. I think, regardless

of what kind of administration we have in Juneau or who we seem to send down there for legislators, they just can't resist that giving somebody something for nothing. There isn't any free lunch, as we all know. Thank you.

GRUENING: Thank you. I think we got your point loud and clear. I wanted to ask you about you say you want it invested and none of it spent. What would you invest it in?

DESPAIN: Well, of course, I don't invest in government bonds. I think they're one of the poorest investments there are. Everybody seems they're pretty safe, but we talk about keeping up with inflation. I invest most of my money in precious metals; it's done real well. I've invested---I'm a coin collector---and I've invested in rare coins. I have several coins I've paid just like five or six dollars for that are worth fifty dollars or more.

Now I don't suggest that the state go into the rare coin business, but there are other investments that beat the federal bonds all to heck. At one time, I had part control of a fairly large sum of money here in one of the banks and we invested in some short term securities in Bank of America, which paid more in interest than the federal bonds were paying at that time, treasury notes or whatever.

GRUENING: Thank you. Russ.

MEEKINS: I think the point you're making is one that, in general, is supported by many people in the legislature. I think that's where the generation of the Permanent Fund concept has come from. The idea of taking money from the day-to-day operation of government. I think, implicit in that is the assumption that spending will increase to the amount of money available for spending.

DESPAIN: It certainly has.

MEEKINS: But there, of course you know, the Permanent Fund can't really be spent on operation of government unless you---well, it could in a sense---but it can't be spent....

DESPAIN: It will be. It can't be, but it will be. One way or another, it will be.

MEEKINS: The other point, I think is important to make, just for the record, is that, although it is true in many people's view, the money from the \$900 million was wasted, because it was spent on the operation of government and the increase of the number of people employed by the state. Not all of that money has been spent. In fact, there are hundreds of millions of that \$900 million left.

DESPAIN: But it is committed though. It may not have been drawn out of the bank, but there's been money borrowed against it and spent.

MEEKINS: Well, it went into such programs as Veteran's Administration loans to Alaskans. The purchase of those loans...

DESPAIN: Do you have any idea of what percentage of the money went into the veteran's loan fund?

MEEKINS: The point is that there are hundreds of millions that aren't spent, that are indeed earning a return. I think that's important, just for accuracy, that while three years, \$500 million may have been wasted, in your view, not all \$900 million.

DESPAIN: Well, if it wasn't spent, why did we sell the oil in the ground up here a couple of years ago?

MEEKINS: It was invested, just like you're advocating the money in the Permanent Fund be invested. Invested where the principals return plus interest. Of course, one side the principal is committed, it can't be used for the day-to-day operation of government. So in that case, that was a good use of that money.

DESPAIN: That's a good use of the money, yes. Loan out with fairly secure loans. That's fine. But we're talking about tremendous amounts of money.

I've seen some of the shenanigans that went on here after the flood, where there were tremendous amounts of money loaned to different people here through the SBA. Then they went out to Arizona or wherever and bought huge tracts of land with this money. Believe me, these things happen. That's what I see is going to happen to the Permanent Fund. The right people are going to get their hands on it, or big portions of it. I've only lived in Alaska for about 36 years. But there's some of them that have been here a long time. Believe me, I've seen some pretty fine shenanigans go on.

MEEKINS: That's a good point. I think, one of the problems with loan programs that we've had in the state is not so much that they're operated in a poor manner or even an inefficient or corrupt manner, but that, generally speaking, the people are aware of those kind of programs and have enough knowledge of---enough financial background to work the paperwork and apply for them are only people who don't need those funds. So you end up in a situation where the general public, or a group of people you've designed for---the loan program

for---don't really get those funds, because they're limited to people that are already dealing in high financed things in the state and banks Outside.

DISPAIN: In my experience here in Fairbanks, I've borrowed from the veteran's loan fund several times; have always paid it back with the interest on it. I don't owe anything now; haven't for 10 or 15 years. But it certainly was a boon to me to be able to borrow money at a reasonable rate of interest and---I was in the plumbing business here from 1950 on my own. I mean I went into business for myself in 1950 and I'm not retired---lately, I just quit working.

But the veteran loan was a wonderful thing. There's no question about it. I saw very little abuse of the veteran loan fund. If something like that could be worked out in the state government, that's fine. But letting the banker make the loan, then guaranteeing to pay it back---I think we're asking for lots of trouble.

GRUENING: Mike.

DOOGAN: Mr. DeSpain, the governor makes a great point of telling us, and I don't---haven't seen anything to disprove this--- that roughly 60% of the current state operating and capital budget

I believe, is financed through some sort of revenue from petroleum production. If you advocate putting all of the money from all resource development in the Permanent Fund, then I assume you're not...

DESPAIN: Non-renewable resource.

DOOGAN: Okay. A broadened definition. I assume you're prepared to live with 60 cents less on every dollar for every state program that now exists?

DESPAIN: I'd like to see about 20 cents on every dollar state program right now. I lived under a situation like that here in Alaska for a good many years when the state wasn't trying to wipe my nose and everything else for me. I don't think that the people in Alaska---I'm not talking about these 30-day voters, but I'm talking about these Alaskans that have lived here for any length of time---want or need the state to provide all of these things that they are providing for them.

I would suggest that some of you people might get an education if you would go out here to the highway department and just go in there and sit down and observe what goes on out there.

I went out there one time to see a party. I spend about 50 minutes in that office. There was three in the office. I

waited for somebody to come in the office, was what I was waiting for. I just sat down and didn't bother anybody. For 50 minutes and there was three women in the office, secretaries, I assume, or something. Anyway, they had desks and typewriters. Maybe they were the kind that couldn't type, I don't know. Anyway, one girl was sitting there reading a book. One was sitting looking out the window. The other was just sitting, just with her arms folded. She had a piece of paper in the typewriter, but she never hit it. And for 50 minutes there wasn't one of those girls did a thing. Now that's why our highway department spends so much money. Because they hire people to sit around over there in that office and do nothing.

I mean literally do nothing. So if the money that goes into the highway department was spent on maintenance crews and people working out on the highways and doing some work, we could have a tremendous road system and probably 20 cents or 25 cents on the dollar would do it.

You name any division of government and, I think, the same thing applies to it. When I talked to the governor about this deal over at the license bureau, he said, "Well, I don't know what to do about that." I said, "Well, pay them by the licenses they issue." I said, "well, contract it out and let somebody else do it." Do away with the license bureau as far as the state's concerned and contract it out and let somebody do it on a bushel basis.

Pay them so much per license. Give them all five bucks. It would save lots of money. Give them the whole five bucks. Okay.

GRUENING: Thank you. I have one question. I asked you about the investment. You suggested that one investment that would at least look good was an Outside one in the Bank of America short term.

DESPAIN: Well, no. I used that as an example of one that we had used one time on a large loan for a year. We got a CD from the Bank of America and it paid one and a half percent more than the treasury notes were paying at that time. There are other investments, other than treasury notes, federal mortgages that pay more money. Maybe they're riskier, I don't know, but anybody who thinks that the interest on the treasury notes keeps up with inflation, they're just not very well versed, because inflation is always 4 or 5, at least 5 points higher than they're paying on treasury notes.

GRUENING: My point was did you infer that it might be that some of the Permanent Fund money or at least the majority of it might be invested Outside if there were no sufficient programs for investments in the state?

DESPAIN: I think that the---absolutely, I don't think that

the state has enough industrial wealth or capitalization to absorb that kind of money. I think it would have to be---the majority of it would have to be invested some place Outside but the income from it is what the state government should be living on. I think it should be invested where it does the most good.

Now I'll tell you. It would be a tremendous boon to business and private enterprise in the state of Alaska if the state lived off that kind of income, rather than keep raising the taxes and raising the taxes on gasoline, raising the taxes---business license tax and these things---that hasn't been raised recently, but---if the government would just leave private enterprise alone and not keep taxing them to death. Of course, I know these socialists, they think that the big business is the one that is hurting the working man and the people in the lower income bracket. But believe me, without big business, these people in the lower income brackets are going to be way down the line along with the business. Because when you knock the businesses out, people don't have the money, they don't have a job. Maybe they work for the government and don't produce anything, but they don't have anything that really sets them up and they don't have a chance to go into business for themselves when government gets so oppressive as we're getting right now.

GRUENING: Okay. Thank you. Are there any other questions

from the committee? Thank you very much. Have we exhausted everyone? Please.

BRAVARNEY: My name is Stanley Bravarney. I'm a citizen of the United States, who's lived in Alaska since about 1954. I work as a surveyor, construction surveyor. I notice that Mr. Collette teaches how to build things. I build things. I don't teach people how to do it. I just do it. If you don't know how to build things, you teach other people. If you do know how, you get a job building.

I have some small investments in market stocks. I've had them since 1957. They're very modest. I make some modest returns on those things. I like to think that I beat inflation out. There are a few rules about investing. One is you got to win. All's fine---you wheel and deal and buy this and buy that. You do all those things. But you still want to win, you have to make money.

When you get guys like Arlon Tussing and Rex Fisher and people like that handling the money---these people are socialist, Communists. They think that government, big business is immoral. They're born losers because they feel that money, making money is wrong. You give them the money, they'll lose it.

GRUENING: I want to put your mind at rest. We're not going to give it to anybody.

BRAVARNEY: Well, you have been giving Tussing millions of dollars for programs which he hands money to people to have these study programs. These people of socialistic government in Alaska gets very, very large funding. They don't give us anything out of it. Incidentally, Mr. Parr might tell us how much the University of Alaska got this year because I haven't been able to get that from anybody. How much is the total budget for the University this year?

PARR: I'm sorry I can't tell you.

BRAVARNEY: It's a state secret---either that or the evasion of rights. You can't give a budget total for the University of Alaska.

PARR: Well, there are two reasons. First the total funding is not available because a good amount of the money was held back by the finance division pending application by the Board of Regents. Until the regents have applied for it and showed they have a genuine need for it, they won't ge it.

BRAVARNEY: Very interesting. With our million dollar

computer we threw it away and we got a three million dollar computer. So now we don't know about this computer enough to tell us how much money we're spending. This is one of the situations.

The second situation is again like if you're investing money as a private investor, you can be eaten up by commissions if you're buying and selling and again having lots of fun. But after five or six years, you find out that the commissions will have eaten up all your profits.

It's the same way. We have spent tremendous amounts of money for all kinds of expert advice. The only thing we got out of this was a bunch of expert advice that didn't give us any money.

Okay. So those are the things that we shouldn't do, but what should we do? As far as I'm concerned, I'm speaking as a non-Alaskan---here for 20 years. I've got maybe \$35 or \$40,000 and I can invest it in something. I can buy some land in California or Oregon or Washington. I can buy land in Alaska. I find land in Alaska is about five times the cost of comparable land in California. If I can find land say in Washington for \$2 or \$300 an acre, you can't induce me to invest my money in land in say Delta, if anybody is looking to buy it.

So my idea is I don't want to invest in me; I want to

invest in you, young people in Alaska. I work as a surveyor, I said, and all the people that I work with they're the young. Some of them have more talent and more education than I. Some of the best surveyors are some women that survey for me. They're real hot shots. When they're not surveying, they're not sitting around here doing this. They're taking courses. For the young people in Alaska, are we going to have roads, are we going to have acres that we can let them develop, that we can let them build on? Are we going to let the young people use the resources, their minds, their talent, or are we going to let people like Dr. Walden, Dr. Drew and all the rest of those people decide what we are going to do? Are we going to say have 150 acres or 250 in Big Delta, that you can squat on, do anything you want with it?

If I want to invest in anything, I don't want to invest in government. I don't want to invest in the University. I think that our university has a very, very bad program. We got this because it's ours. I'm saying we got to make our own minds. Thank you.

GRUENING: Thank you. Any questions? Next. Thank you very much. You're the first woman to testify today. I'm glad. No. Wait. Sandra was the first.

WESTCOTT: Well, I wasn't going to testify today but I am one of the young people in Alaska that would like to do something.

First of all, I think I've heard inflation here today.

GRUENING: What is your name?

WESTCOTT: Excuse me, Rynniva Westcott. I live at
6 1/2 mile Richardson Highway.

I've heard inflation, I've heard a lot of ideas of what we shouldn't do with our money and what we should do with it. I think I'd just like to bring forth a few thoughts. I think the only way that Alaska is ever going to fight inflation is to develop a manufacturing economic base utilizing our renewable resources in a way that is beneficial in several aspects to our cash flow and our destinies. I think we should be re-circulating money in Alaska instead of seeing the money spent in our current flow system where the money eventually, through the economic chain, ends up in the coffers of an industrial corporation on the East Coast. By establishing an industry with our renewable resources, we also decrease the liability on our less than desirable transportation systems from the West Coast.

I think also, by establishing an economic base revolving around our renewable resources, is that we establish once and for all, a stable economy that is composed of production and processing within Alaska versus our current system and our past system of being reliant on the government and on our

boom and bust cycles.

In Kansas this year, farmers are getting \$1.85 per bushel for their wheat. But going back to the cycle that we are living in, by the time it gets here, we're paying a dollar a loaf for our bread. This is what we've got to get rid of or we'll never eliminate inflation.

Of course, the other question is why do we need agriculture here? That question is always brought up. Well, in the lower 48 right now, we're losing prime agricultural land at the daily rate of 5,500 acres per day and while technology increases production, the multiplying factors of population increases kind of pours water on the fire.

Now this land is being lost because of population increases. You have higher home demand. New industry comes in. New services area businesses come in so you're losing land.

Regardless of what our likes are in the way of recreation or any other aspect of life, food is one of the basic requirements of life. Alaska is already in the position where we are highly dependent on importing our foods. I think we should be producing our foods, not only growing our food, but producing---processing the by-products of the initial crops, and taking care of Alaskans. Once we've taken care of Alaskans, then we can use it as an export commodity. Of course, what I'm condoning here is for Permanent Fund monies to be used for low interest loans for agricultural

development. Not just farming, but the actual processing of the products. When I say this, I'm talking about canned goods, frozen goods, lunch meats, the red meat industry, etc., so that we do have the food here. I don't know what the current statistics are, but a year ago we had a seven-day supply of food in the state at any one time. I think it's essential that we have more than that, because with a major strike of our transportation system, most Alaskans would get very hungry. The Alaskans that wouldn't get hungry are going to cause others to starve, because they're out in the stores as soon as they get a hint that there's going to be a strike, buying up all the food products in the stores, and the shelves are empty. Any questions?

GRUENING: Thank you for your statement. Any questions? When you mentioned agriculture, I thought of Charlie's bill and his work to promote it. A question comes to mind of you know, why it hasn't really flown in the past? Maybe you have some insight into that.

WESTCOTT: I don't think our state administration has ever supported agriculture. The federal...

GRUENING: The present one?

WESTCOTT: I'm talking about present and past. The federal

government has never encouraged agriculture development. In fact, there was a team of so-called experts sent here in the 1930's to explore the possibilities of utilizing agriculture lands in Alaska. At that time, they documented that it was unfeasible to utilize the agriculture lands in Alaska because they didn't need it.

Well, basic composition of this panel that came up here were farmers from the Midwest. Naturally, they're not going to want the competition that could be incurred from farming in Alaska. This brings up another point that's probably very far-fetched, but one possible utilization of Permanent Funds money, if the right set-up could be established, would be to buy some of the agriculture lands from the federal government.

GRUENING: You mean some of the D-2 lands that are proposed?

WESTCOTT: Not specifically D-2. There are lands in the D-2 that could be utilized for agriculture that are class 2 and class 3 soils. Of course, the federal government has told us that we don't have class 1 soils because of the climatic limitations within Alaska.

PARR: I'd like to reinforce what Ms. Westcott said. Of course, the bill which Governor Hammond vetoed would have been, at least, a start, first step in the direction of agriculture in

the Interior.

But I know that Dr. Burton from the university has published a series of studies on agriculture in Alaska. He may be a little optimistic but his figures indicate that we would eventually have about a \$4.4 billion agricultural sales in the state at an investment cost of about \$3 point something billion per year. So about a billion dollar's profit a year in agriculture alone. It may be a little optimistic but they are big numbers. It does require a big investment.

I think, those of us in the Interior, certainly look at agriculture as being one of the prime sources, prime targets for investment in the Permanent Fund.

WESTCOTT: I think there's a few aspects of the legislation, although I endorse the concept of it, that I have certain problems with. One is agriculture rights. These rights have never been clarified in documentation as to exactly what agriculture rights will be.

First of all, agricultural rights are going to have to be a bankable commodity that the farmer has. The other thing is, of course, that people do not invest their lives in something they don't own. What I mean by that, say a farmer lives on his land and farms it for 25 years and through circumstances that are beyond his control, he becomes vitally ill. He is the bread winner in the family, and he is going to be forced to

sell his property to pay for his medical bills and support his family. This is one thing that should be taken into consideration on agricultural rights. The way it was defined in the Delta land use study, if the land was not farmed, it would revert back to state ownership. This is not owning land.

GRUENING: If I may just comment, I appreciate your testimony on that. One of the problems around the Anchorage and the Mat Valley is that land is rapidly eaten up by subdivisions. Now I think, one of the points to try to restrict it to farming was to prevent the Mat Valley situation. Maybe that's not the way to do it, but I am too concerned with the fact that more and more farmland is irreversibly converted to other purposes. Once you get a subdivision on it, it's not going back to farming.

WESTCOTT: Well, this is correct. You shouldn't be able to subdivide farmland, but the other thing is, of course, that the farmer can sell the land to another farmer. But the way it's written up, if you can't farm the land, it reverts back to the state ownership.

I'm not saying this is the way that agricultural rights will be defined, but they haven't defined it yet. No one is going to go in and purchase land from the state until they know what they have. This would be the same circumstance with Permanent Funds. How can

you take money that has been raised through revenues of non-renewable resources and loan it to someone without clarification that he does have control on the land? Of course with your state system, it's fine and great because it's the state's money; it's the state's land if it's reverted back to the state. Nobody loses. It loses some of the personal property appreciation that individuals have.

GRUENING: Okay. I understand that. Any other questions from the committee? Thank you very much.

VOICE: Could I make another comment?

GRUENING: I'd much...we have a plane to catch. I'd like to hear from you if we have time. But I'd like to hear if anybody else who hasn't testified would like to. Is there anybody out there who would like to make a comment? That hasn't testified. Mr. Murphy.

MURPHY: Like most of the people, Representative Gruening, I didn't plan to testify, so the gist of the...

GRUENING: Could you give your name, just for the record?

MURPHY: My name is Frank Murphy. I live at 308 Noyes Street. The gist of the testimony seems to be as how we might invest the Permanent Fund. I was wondering, my understanding of the Permanent Fund was a safety valve against the day when our declining oil revenues no longer supports the state's budget. I was wondering, if that was the case, perhaps the paramount criteria for how we spend the money is the amount of return we get on it. Is that a correct view of the Permanent Fund or...I guess that's a philosophical question.

GRUENING: That's what we're asking you. That is one philosophical stand that I've heard a number of people state. But there are others, if you sat through today, you'll see there are other goals that people are interested in.

MURPHY: The General Fund is probably more flexible than the, and possibly larger in dollars and cents than the amount of money in the Permanent Fund. It would address itself to most of these investment names which I thought I would agree with, as far as developing Alaska.

But in terms of, and I don't know whether we are going to have people project this situation that the state might be in 10, 20 years down the line, of not being able to support its operating expenditures due to a decline in oil revenues. If we are

faced with that, the Permanent Fund then would be our guarantee against being in that embarrassing situation and should be defended as such would be. And that's all I really wanted to say.

GRUENING: Thank you, Frank. Any questions from the committee? Thank you very much. Is there anybody out there who hasn't had a chance to testify? Yes, sir.

MORGAN: I guess somebody's got to be last. I'm Ray Morgan. I live at 2½ mile Farmer's Loop Road sometimes and sometimes on a homestead across the river in Delta Junction, which I'm still trying to improve upon. I'd like to take off probably where Rynniva left off and say a little bit about what I'd like to see about the Permanent Fund and also zero in a little bit on the agricultural possibilities in Alaska.

First, it's been my impression since we've been talking about, what I've read in the news media about the Permanent Fund and it was supposed to have been a Permanent Fund for the development of renewable resources in Alaska taken from the non-renewable resources. I guess in the last few months or a year or so we've changed that, so now, also including non-renewable resource development in this, and this I would not argue with. I think we need the non-renewable resource development along with the renewable resource.

I would like to see about half of the non-renewable resource funds put into the Permanent Fund. Just using the interest on this money for the development of non-renewable resources.

There are four non-renewable resources as I see it in Alaska that should be a part of this development. I'd put on the bottom of the list, I think, tourism. I think tourism is a renewable resource, whereby funds can be used to help support this industry.

I think the third one I'd put would be the fisheries industry. Fisheries have certainly not been explored very much in Interior Alaska, but is one of the biggest incomes we have in the state. Probably the second one outside of all our mineral industry today probably I'd say would be the timber industry. This is not again in Interior Alaska, has not been talked about, has not been explored very much at all.

The first one, I think, the top priority I'd put would be agricultural development. Last year we exported from Alaska about \$100 million to buy food that we can produce here in the state. If you take this, carry this out over another 10 year period, you can see this is going to master quite a few hundreds of millions of dollars that we're going to send down to Seattle and to California and other states to buy the food that we can produce here. I'm not talking about food that we can't produce here, just the food that we can produce, the red meat and about 35 different kinds of vegetables.

What I'd like to see us do is to provide funds for two phases

of an agriculture program that we don't have.

One is for the infrastructure to help support an agriculture program. Without an infrastructure to help support it, we will never succeed in agricultural program. I think the 5,000 acres the state is going to sell in the Tanana Loop area down to Delta Junction will never become an agriculture supporting program. It will become a lifestyle where people want to live in the rural area and will become a kind of a rural homesite, the kind of area that I like to live in too, but I can't afford to do it. Suppose the infrastructure means the machinery dealers, the repair stations, the warehouses--- this is the kind of infrastructure I'm talking about. You can imagine now we don't have that in Alaska. It's almost comparing a railroad to a---what do you have if you have a railroad without tracks or without a railroad yard? You have to have an infrastructure to support the railroad. You also got to have this to support an agriculture program.

The second thing we don't have in agriculture program goes along with infrastructures and marketing system. Until we get a marketing system developed to market within the state and outside the state, the things that we can produce and program jobs for the unemployed and the underemployed, we will again be doomed for failure in any kind of an agriculture program.

So I'm talking about---think I've said this---use the

Permanent Fund, the interest from the Permanent Fund and allow it to be controlled by the people in the state, as some other people have said, let's keep control of that 50% of the non-renewable money that we have and let's spend the interest on it and save it for, the principal part of it for the children that's coming along. I've got three that'll probably be in the state for quite a long time after I'm gone. I'd like to see them have a part of this. But the agriculture program, I think the marketing system and the infrastructure that it takes to support an agriculture program---without those we're going to see some more Matanuska Valley, like you folks have seen in Anchorage, happen right here in the Tanana Valley too. Thank you.

GRUENING: Thank you, Mr. Morgan. Are there any questions?
Mike.

DOOGAN: I'd like to make a statement for the record. There is nothing in the law right now that stipulates that the Permanent Fund will be used for development in Alaska; there is, however, nothing in the law that stipulates that it will not. One of the purposes of these hearings is to find out what people think about that proposition.

GRUENING: I had one question. You know, I know so little about agriculture that I hate to make any statements, but I have

a question in my own mind of why it hasn't flown in Alaska. I've heard this has been suggested that in the Outside agriculture business, called the agribusiness, it's huge, through its massive size and efficiency, can out-compete anything we do up here. Now does that mean to compete we have to get on the same scale? What advantages do we have that would enable us to, say, produce food as cheaply without, say, heavy subsidy as is done Outside?

MORGAN: I think I'd include agribusiness enterprise in this infrastructure as a part of it. And yes, there is a volume that has to be produced before you can do it economically an agriculture program. Some of the folks at the university have said---it's the best information they have---that about a barley development project, the minimum is needed to support the infrastructure, the marketing system to be able to go in the state.

This, of course, is what the governor's planning for the 70,000 acres in Delta Junction. I think we have never had that volume to be able to support the infrastructure, the machinery dealers, the kind of equipment that is needed to be able to supply the market for our own use, and this is why today we're importing about 96% of the food we consume.

GRUENING: Do I understand your proposal that the interest

from the Permanent Fund earnings would be used to help agriculture or was it that actual investment of the principal of the Permanent Fund would be used? Or both?

MORGAN: No. I think I'd like to see just the interest used for the promotions of the non-renewable resources as well as some other kind of economic developments like a phosphorus mining operation, a petrochemical operation which would supply the state, other kinds of nitrogen for agricultural programs. I think these too would need to come along with---to support the non-renewable resources too. Using just the interest, right, not the principal.

GRUENING: Now what about---agriculture would receive loans or grants from the interest---is that the thrust?

MORGAN: I would not say grants. I would say we would receive loans. Yes. I'm not too much in favor of grants.

GRUENING: Okay. Any other questions? Charlie.

PARR: Only one. I might comment, of course, as it was pointed out by somebody, must have been a few minutes ago---there will also be money available in the General Fund, which can be used for some of these things. It wouldn't necessarily have to come---all of the agriculture help wouldn't have to come out of the Permanent Fund monies.

GRUENING: There was a newspaper article, I think it was in the Anchorage papers---it may have been statewide---about some of the defaults in the agriculture loan program, the state agriculture loan program. In other words, the loans are in default and the state isn't getting paid back on some of them. I think we want to try to avoid that. Any suggestions we can have, and maybe it's the fault of the way it's administered. But I think we want to, if we're going to put more money into it, we want to discover what went wrong.

MORGAN: I think this is true. And again, I'd say any of the reasons for the defaults has been just a lack of volume. You just cannot operate an agriculture program in the state of Alaska unless you have the volume to support the infrastructure and the marketing system, those two things. Until you're willing to invest in those, I think it's doomed for failure. I'm sure the agriculture program in 5,000 acres in Delta Junction will never succeed as an agriculture program. It'll be a lifestyle, that some people who buy the land, have agriculture rights, will be living there. That'll be about basically it.

GRUENING: Okay. Since our time is limited, we're only going to have one or two witnesses. We may try to make that

plane. Is there anyone who hasn't testified yet who would like to?
Yes, ma'am, why don't you comment on that?

WESCOTT: Can I just speak from here?

GRUENING: Why don't you speak in the microphone? We're recording this. We'd like to preserve it.

WESTCOTT: You are referring to the agricultural revolving loan fund---correct? I think one of your basic problems with that program is that it's very political and very isolated. You have a recommending board, that is made up---the majority is made up from the Palmer area, residents of the Palmer area. I have seen case after case where a loan is approved through that program more on who knows who than the actual economic basis of it. That would be my only comment on it.

GRUENING: Well, I appreciate that, because you can see that same problem facing the fund. We can have it all go out in bad loans, depending on who Permanent Fund managers are. We have a real problem.

WESTCOTT: In fact, I think you may be aware of the fact that Bill Lewis, who is director of agriculture, was dismissed three

months prior to a new director being put into the office basically because he was going against one loan on the basis it was not backed up properly with collateral; it was not an economic venture that he thought was a good banking loan. It was approved after he was dismissed from his office.

GRUENING: Do you have any comments, suggestions on how these loans might be administered differently?

WESTCOTT: I don't have any suggestions. I have suggestions of what not to do, and that's to set it up the way the revolving loan fund, is, with just a geographical board sitting in Palmer making the decisions for a statewide development program.

GRUENING: I sense also that you feel too many of the loans aren't getting up in this area. Not enough of the money is getting to this area.

WESTCOTT: I think that would be a legitimate complaint. Yeah.

GRUENING: Okay. You, Mr. Bravarney, is that it? Could you make it short, because there's one other comment in the back? Thank you.

BRAVARNEY: Very short. I want to briefly state a couple

other things. I'm from Pennsylvania originally. We folks are Polish people, many of them were farmers. I've seen exceedingly skillful, dedicated people with small farms. My attitude about farming and growing things---you can grow on two acres; you can grow on two million acres. You got to be a farmer. That's all there is. I have a degree in forestry from the University of California, 1954. We didn't know economics. We had chemistry, physics, mathematics, botany, and all those things. We didn't know too much about economics. (inaudible)...a hell of a successful forester. Wouldn't mind seeing (inaudible)...farmers for, if they think they've succeeded (inaudible)...It's the same with farmers (inaudible)...I could perhaps go to an area and maybe have (inaudible)...sort of thing. I could put the type of energy that it would need into developing something, young people can. Right now this (inaudible) business, but everything comes to Alaska late. (inaudible)...the university is notorious for that. They get the (inaudible)...There's a nice thing about this great, big (inaudible) Marxist Socialism. If it's succeeding here, (inaudible) is falling in other places. (inaudible)...but in many cases, it isn't. It (inaudible). There are lots of...the state is (inaudible)...We can't plow the ground with (inaudible)...

GRUENING: I think there'll be a hearing some other time on the university.

BRAVARNEY: We're not developing students; we're developing PhDs. Thank you very much.

GRUENING: Thank you. I saw Mr. Spencer enter the room, and since everyone has testified, did you want to say something, Jerry? We're trying to catch a plane out, not because we want to get out of town, but because we have another hearing tomorrow.

SPENCER: Okay. Thank you, Mr. Chairman. I just had a couple thoughts. I'll try to be brief. I appreciate very much your coming to Fairbanks and collecting opinions on this Permanent Fund idea, which I don't really know much about, but it seems to me it's got some extraordinary possibilities.

GRUENING: Excuse me. Could you identify yourself please, for the record?

SPENCER: I'm sorry. Yes. Jerry Spencer. I'm a 17-year resident of Fairbanks and director presently of the Fairbanks Town and Village Association. We're a regional, non-profit development organization.

I think the only thought I had to offer to you, I'm sure you've heard some very good testimony this morning---when I was here. I'd like to second many of Mr. Wallis' and Mayor Carlson's thoughts on the nature of the Permanent Fund and these

types of investments and so forth. Some of my concerns, though, have to do with, you know, just the whole idea of how you deal with a billion dollars or two billion dollars in a state this size with 400,000 people in it.

The state's budget this year---and Mr. Gruening, I think you and I would probably find a great deal in common on how the state spends its money---but the idea of a billion, one hundred million dollar budget is just overwhelming to me. The idea of the Permanent Fund having, you know, what are we talking about, two billion dollars in it a few years down the line. This is just mind boggling as far as I'm concerned.

As you deliberate how to manage this thing I would hope that there'd be not only decisions on how the fund is to be allocated in terms of what kinds of things are financed, but you spend a great deal of time on how, you know, the general public is going to be able to keep in contact with the managers of the fund.

As far as I'm concerned, the general public doesn't have much to do at all of the expenditure of that---talking about how you accept policies, how you set up administrative practices in the spending of the billion dollar state budget. I think it's causing some serious problems. That may be an unfair statement, but I feel that people just don't feel like we have the management tools to manage that kind of money. I feel it often myself.

Now you're contemplating something of this sort, which is really

going to make Alaska, I would assume a force in the international money markets. People of Alaska are going to want to watch that very closely. They're going to want to feel they've got good communication with the evolution of the fund. You can't set up administrative mechanism at the front end and just sort of say that's all we need to do with it. This thing is going to evolve day by day in terms of the theory, the thinking about it, how the money's going to be spent, how you're going to allocate parts of it, whether you're going to spend a bunch on rural communities, whether you're going to dump a bunch in the banking system, whether you're going to get involved in investments in Saudi Arabia, or whatever.

The public, you know, that device for making sure the public is constantly in tune with the evolution of the fund, I think is equally as important as deciding how to spend the money---more important, because without that, you're going to be---distance I'm afraid is going to be so great that you're going to have a serious credibility problem and a constant political hassle. We've had enough of those. I'd like to see less of them in the future. As long as we've got this immense gap between the people and their understanding of how to spend or even consider a billion dollars, I think that's where I would recommend the committee and other interested in the development of this fund---I hope they would spend a good deal of time on that.

GRUENING: Thank you, Mr. Spencer. You just mentioned one of the more difficult problems and that is how you make the funds responsible to public need yet not, let's say, acceptable to a lot of political maneuverings where you have bad loans made because your friends are asking for loans. Any suggestions you have along that line would be helpful.

I only can say that the General Fund is managed by, of course, the executive; but the budget is made up by the legislature. If you don't like the way the legislature does it, you can always vote the legislator out of office. With the Permanent Fund, if you have a structure that doesn't have elected officials, I don't know how you would directly respond. So we have a difficult problem.

SPENCER: These comments that I am making now, by the way, have no parties in cast to them at all. I think it's a problem both Democrats and Republicans are going to have to address themselves to.

You know, you're quite right. The legislature, there's a term for it---the legislature appropriates, the administration spends. The nature of the spending is a problem for both branches. I think it's a serious problem and it's going to get worse, I suspect, because I don't see that the people are that concerned about the mechanism for managing all of this money. You know. And I'm not talking about the services people receive. I'm talking about how you actually put the policy together with the administrative mechanisms and the

communication with the people that, I think, is necessary constantly. I just don't see that. I don't see much movement towards trying to develop those things. That's my concern. I appreciate your...

GRUENING: Any questions? Thank you very much. Has anyone not testified who would like to? Yes, sir.

LAUESEN: My name is Elstun Lauesen. I live at 2416 Gillam. I assume that you're after some broad, general ideas. You're just here to get people's feelings.

GRUENING: To get a nutshell. What's your philosophy on the Permanent Fund?

LAUESEN: Alright. In a nutshell, I feel that the Permanent Fund should keep a...let me read from my notes here, because I have a lot of ideas and I want to get them out systematically. Alright.

I want you first to consider this---that public equity and private equity are fundamentally different, because the definition of value changes as one moves from consideration of the public good to concern for the private profit picture.

I feel that, as much as the Permanent Fund is capable of

doing so, that it should be considered a public trust. While remaining secure, it must have the flexibility to penetrate the thick overlay of corporations and institutions that exist in the state and be able to reach the individual and the group who have a legitimate and reasonable need for funding.

The question is what defines reasonable.

I would like to suggest then that the major criteria for the reasonable kind of development to be encouraged by the Permanent Fund and also for the Renewable Resources Fund is principal of economic self-sufficiency for the Alaskan People. That is a real public equity, but that would be an investment nightmare.

I envision the development of both production and distribution co-operatives in this area as large numbers of individuals undertake programs of resource-pooling in order to deal with long-term unemployment which exists here, either by circumstance because of the seasonal nature of a lot of the work here, or by choice, by those individuals who seek to be de-intensify the economic future of their lives. I see nothing subversive or wrong with this. There's a lot of people who are trying to approach that kind of style of living. Now obviously these are not the kinds of conditions that traditional money-managers would enthusiastically embrace, but they are on the horizon. I see them increasing. They will require servicing.

Excuse me for breathing into this microphone, but...I would

like to see two conditions, therefore, created within the Permanent Fund and Renewable Resources Fund. First I would suggest a generous allotment of capital for risk, what I call risk capital or venture capital based upon the assumption that the public equity derived from programs and projects designed to foster self-sufficiency are worth the more liberal risk structure.

And number two---the uses of the fund be monitored by public agencies as well as the Permanent Fund committee because of the range and the special condition of these investments will require an understanding kind of review and analysis. For instance, the Cooperative Extension Agency might be the review agency for family and small group investments dealing with commodity production, such as small agricultural cooperatives. Risk capital is review analysis. The latter is important because in some cases the only public equity would be the knowledge derived from the risk taken. This would include individual excursions and alternative energy resources in the building of their homes or whatever.

I'm of the conviction that the existence of risk capital might ignite success in community terms. For each enterprise it successfully interfaces with community need and lending, thereby, a greater self-sufficiency to the community as a whole, represents a public equity and not measurable in dollars.

I wanted to bring this thing, but I didn't get a chance to type it up, that is illustrating this whole point through the development of food cooperatives. In an attempt to quickly establish a source of local economic developments infrastructuralization, where there is a cooperative arrangement between producers and consumers to avoid what, in the future, is going to be a spiralling cost in macro-economic factors affecting Safeway stores and that kind of thing. We have to localize our production and localize our development.

GRUENING: You can submit a written testimony any time later on.

LAUESEN: Okay. I have just one final thing before you off to the airplane.

I would like to end this part of my testimony by questioning the advisability of what may have called the tools of the money managers. By encouraging large scale investment, you create an elite class of borrowers. Unlike that gentleman, I think either loan guarantees or syndicated loan arrangements should be de-emphasized because it is the internalization of the Alaskan economy, that I believe, ought to be encouraged, along with, I'd like to add, stabilization of the economy.

Even if these conditions weren't such huge blocks of capital unless it is a sizable project, which I would submit, might be more efficiently and effectively funded co-ventured or owned by

the state directly rather than having to launder it through private enterprise in order to give a patriotic or traditional appearance to your undertakings. This is precisely the condition that I fear the Hammond administration recently proposed to \$750 million loan guarantee to El Paso's gas lines.

In any case, I realize that the Permanent Fund will represent a considerable sum, but we're not under any gun to invest it as fast as we can. If the business community is worried about the Permanent Fund maintaining parity with the eroding value of the dollar and thus urge us to "put our dollars to work" I would suggest that the logical thing would be to ignore the advice of the so-called Alaskan business community and convert the holdings of our Permanent Fund from the all-American dollar to the Canadian dollar and sit on it. Thank you.

VOICE: Could I ask the gentleman a question?

GRUENING: I would like to let this go into debate, but I saw Mr. Dempsey come into the room. We are debating whether we're trying to catch the plane. If you...

VOICE: No. That's okay. Thanks.

GRUENING: If anyone has a written statement that they want to make later, please feel free to submit it to the committee. Is there anyone who hasn't testified who would like to? I want to thank everyone for turning out. I've enjoyed this. I really have. And I plan to come back to Fairbanks before we recommend anything final to the legislature. Thank you.

Fairbanks - 9-14-77

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Stanley Pionard	215	

Testimony presented to House Permanent Fund Committee
by Elstun W. Lauesen. Fairbanks/ 9/14/77.

Let me begin by stating that if the library won't let me copy this statement on their machine because of the policy imposed that does not allow the facility to 'compete with private enterprise', my cost to copy this thing will increase three to five times.

Now, while you are assuming a perplexed and dubious look, consider this: Public equity and private equity are fundamentally different because the definition of VALUE changes as one moves from consideration of the public good to concern with private profit.

I feel that the Permanent Fund should continue to be considered a public trust but one which should have the flexibility to penetrate the thick overlayer of corporations and institutions and reach the individual or small group with a reasonable need for funding.

But what is to define 'reasonable'?

I wish to suggest that a major criteria be to encourage

the development of economic self-sufficiency for the alaskan people--a real public equity although a potential investment nightmare for traditional money management standards.

I foresee the development of production and distribution co-operatives in this area as large numbers of individuals undertake programs of resource-pooling in order to deal with long-term unemployment which will always be with us wither through choice (among those citizens who choose to de-intensify their economic lives) or through circumstance in the form of the seasonal nature of much of the work available in the interior.

Obviously these are not conditions that traditional money-managers would enthusiastically embrace, but they are increasingly on the horizon and they will require servicing.

I would like to see the Permanent Fund incorporate two conditions¹: Risk Capital and Review/Analysis.

I would like to see a generous allotment of capital for 'risk' or venture capital based upon the assumption that the public equity derived from programs and projects designed to foster self-sufficiency is worth the more liberal risk structure.

It would also be worthwhile to require that the uses of the

1. As well as the Renewable Resources Fund.

fund be monitored by public agencies along with the Permanent Fund committee because the range and the special condition of these investments will require intelligent review and analysis. This condition is especially important since, in some cases, the only public equity derived from the risk taken will be the knowledge derived from the experience.

I believe that the existence of sufficient risk capital might ignite success in community terms--each enterprise that successfully interfaces with community need and lending, thereby, a greater self-sufficiency to the community as a whole, represents a public equity that cannot be measured in dollars.

I would like to end this part of my testimony by questioning the advisability of what one speaker earlier referred to as the 'tools of the money managers'. While the 'tools' might be provided to the committee as discretionary instruments, the use of loan guarantees and syndicated loan arrangements should be de-emphasized. By encouraging large-scale investment, the Permanent Fund committee would merely create an elite class of borrowers without necessarily assuring the self-sufficient infrastructuring of the state economy. Moreover, large-sized investments made within the State might be made more efficiently through direct funding and public ownership rather than laundering large chunks of the public

fund through the private sector merely to appear patriotic or 'sound' or politically acceptable to the Chamber of Commerce. The loan guarantee 'tool' is precisely the instrument recently wielded by the Hammond administration in its suggestion to guarantee loans of \$750 Million for El Paso's gas line.

In any case, I realize that the Permanent Fund will represent a considerable sum, but we are not under any gun to invest it as fast as we can. If the business community is worried about the Permanent Fund maintaining parity with the eroding value of the dollar and therefore urge us to 'put our dollars to work', I would suggest that we ignore that advice of the so-called 'alaskan business community' and convert the holdings of our Permanent Fund from the all-american dollar to the Canadian Dollar and sit on it.

Thank you.

Testimony of
John Skyskine
P.O. Box 5068
College, Alaska 99708
before the

House Special Committee on the Permanent Fund
Alaska State Legislature
in
Fairbanks, Alaska
September 14, 1977

Mr. Chairman and Members:

I do believe that the policy of distributing natural resource income directly to Alaskans, as proposed in the Alaska, Inc. concept, is far superior to the current policy of allowing the state government agencies to spend that income. However, there is a third alternative for the use of non-renewable natural resource income which I favor over the Alaska, Inc. concept. That third alternative is to use such income as a loan insurance

fund to encourage Alaskan ownership of new buildings and other land improvements in Alaska.

I have a specific proposal to make in this regard:

1. The Permanent Fund (and, preferably the entire non-renewable natural resource state land income) would be invested in U.S. Government securities, with the income therefrom being added to the Fund to help compensate for the reduced real value of the Fund over time due to inflation.

2. These securities would be used to guarantee 100% of the value of loans made to Alaskans for constructing and equipping new industrial and commercial enterprises and residential facilities in Alaska.

3. The loans would be

made through normal banking procedures ~~factories~~ and could pay for up to 95% of the value of the project used as collateral.

4. A fee would be charged the borrower sufficient to cover losses due to loan defaults plus any loss in real value of the Permanent Fund due to inflation, beyond that covered by the securities income.

5. Annually or biannually, the uncommitted balance in the Fund would be divided equally among all persons who vote in the general election to use as guarantees for loans.

6. Such amounts could be saved for a five-year period but if not used within that period would be returned to the uncommitted balance for re-
allocation.

7. The loan guarantee amounts allotted to each voter would be non-transferable, except upon the death of the owner and then only if they had been used.

8. As loans are repaid the guarantee amounts would be reduced proportionately and the reductions returned to the uncommitted balance.

The general policy and specific proposal which I favor has two major advantages over the Alaska, Inc. concept:

1. It does not establish what in effect is a guaranteed annual income presidency. It does not pay people just to live in and "endure" Alaska.

2. It does help all Alaskans — forever, not just while the natural resource income lasts — to invest in the progress

of our State, and through such
investments improve their own
lives and the State as a
whole.

This policy and proposal discourages
dependency and encourages
creative thought and constructive
action by all Alaskans
forever. It encourages Alaskans
to join together in the pro-
motion of projects to improve
their State, their communities,
and their lives.

OVERVIEW FOR PERMANENT FUND

HEARING

FAIRBANKS, SEPTEMBER 14, 1977

SUBMITTED BY RICHARD D. SEIFERT, LEROY E. LEONARD

UNIVERSITY OF ALASKA

I. Purpose: In view of the future inevitable depletion of fossil fuel resources, even with Alaska's comparative wealth, it seems very prudent to begin to assess an alternative renewable energy future for Alaska and begin a program to allow Alaska's transition to a clean, renewable, environmentally sound, resource economy to be a painless one. This proposal seeks to use or establish the mechanisms for use of the Renewable Resources Development Fund, the Permanent Fund earnings, and any additional new oil and gas money which may become available to establish continuous funding for an ongoing program in renewable energy research, development and demonstration.

A. The proposal in specifics:

It is proposed to use the permanent and other available fund earnings for a continuing energy research, development and demonstration program in Alaska. Use would be specifically limited to those research projects which relate to renewable natural resources relevant for use in any or all regions of Alaska. The prospective types of energy resources which qualify for the proposed permanent fund program include:

1. hydroelectric power, including low head, low-gradient, water power applications,
2. solar heating and agricultural applications,

UNIVERSITY OF ALASKA

3. wood burning research for heating,
4. wood lot management,
5. wind power applications,
6. certain geothermal applications,
7. tidal applications,
8. earth heat and geothermal gradient systems,
9. bioconversion systems and waste conversion,
10. ocean currents,
11. any other naturally available energy source which can be shown to benefit Alaska and is demonstrated to be renewable.

B. Legislative review

1. Renewable resources development act of 1974. (Attached)



LAWS OF ALASKA

1974

Source

CSHB 673 (Finance) am S

Chapter No.

130

AN ACT

Relating to renewable resources funds; and providing for an effective date.

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

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

CHAPTER 11. RENEWABLE RESOURCES FUNDS.

Sec. 37.11.010. ALASKA RENEWABLE RESOURCES DEVELOPMENT FUND. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by sec. 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources.

Sec. 37.11.020. FUND AUTHORIZATION LEVEL. Not less than five per cent of the receipts paid 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 Alaska renewable resources development fund. These deposits shall be invested in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund.

Sec. 37.11.030. FUND UTILIZATION. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature.

Sec. 37.11.040. FUND BALANCES. Unappropriated or otherwise unencumbered balances remaining in the Alaska re-

newable resources development fund at the close of each fiscal year shall be transferred to the Alaska renewable resources 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 apportioned by sec. 60 of this chapter for deposit in 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. FUND PRINCIPAL. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the permanent fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with AS 37.10.070 (investment of surplus state funds).

Sec. 37.11.070. UTILIZATION OF FUND INCOME. Income received from investment of permanent fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from fund income shall be prepared in detail by the appropriate state department or agency and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature.

Sec. 37.11.080. PROTECTION OF PRINCIPAL. A transaction involving permanent fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended.

* Sec. 2. On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010 - 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund.

* Sec. 3. This Act takes effect July 1, 1978 with respect to rentals and royalties, and July 1, 1975 with respect to lease bonuses.

Approved by governor: May 18, 1974
Actual effective date: July 1, 1975 (lease bonuses); July 1, 1978 (rentals and royalties)



LAWS OF ALASKA

1974

Source

Chapter No.

SCS CSHB 635

131

AN ACT

Relating to the postponement of civil proceedings when a party or attorney is a member of the legislature; and changing Rule 40(f) of the Alaska Rules of Civil Procedure.

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

* Section 1. AS 24.40 is amended by adding a new section to read:

Sec. 24.40.031. POSTPONEMENT OF CIVIL PROCEEDINGS WHEN A PARTY OR ATTORNEY IS A MEMBER OF THE LEGISLATURE. When it appears that a party or an attorney of record of a party to a civil action is a member of the legislature of this state, and that the legislature is in session, the action shall be continued until 10 days after the legislature has adjourned, unless the party or attorney upon the call of the action for trial waives the benefit of this section. When it appears that a party or an attorney of record of a party to a civil action is a member of the legislative council, the Legislative Budget and Audit Committee, or one of their subcommittees, the action shall be continued when the legislative council, budget and audit committee, or the subcommittee, as the case may be, is holding a meeting, unless the party or attorney upon the call of the action for trial waives the benefit of this section. When it is necessary to file a brief or memorandum of law in an action which has been continued under the provisions of this section, the action shall be continued for a time sufficient to prepare and file the brief or memorandum.

* Sec. 2. In sec. 1 of this Act, AS 24.40.031 has the effect of changing Rule 40(f) of the Alaska Rules of Civil Procedure, by providing for the continuance of a trial of a civil action or other court proceeding when a party or attorney is a member of the legislature.

Permitted to become law without signature
Actual effective date: August 16, 1974

2. Permanent fund legislative review. (Attached)

1 IN THE HOUSE

BY SWANSON

2 HOUSE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska permanent fund."

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

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

9 CHAPTER 12. ALASKA PERMANENT FUND.

10 Sec. 37.12.010. FUND ESTABLISHED. There is established as a
11 separate account the Alaska permanent fund. At least 25 per cent of all
12 mineral lease rentals, royalties, royalty sale proceeds, federal mineral
13 revenue-sharing payments and bonuses received by the state shall be
14 placed in the fund. These funds and any other funds appropriated for
15 deposit in the permanent fund shall be held perpetually in trust for the
16 benefit of the present and future generations of Alaskans. The fund
17 shall be administered in accordance with the provisions of this chapter.

18 Sec. 37.12.020. FUND PRINCIPAL. Funds placed or deposited in the
19 permanent fund are fund principal which shall be invested in perpetuity
20 only in the income-producing investments specifically designated in this
21 chapter regardless of other provisions of law dealing with permissible
22 investments of state funds.

23 Sec. 37.12.030. INVESTMENTS ALLOWED. (a) The principal of the
24 fund may be invested only in

25 (1) obligations of, or obligations insured or guaranteed by,
26 the United States or agencies or instrumentalities of the United States;

27 (2) obligations of the State of Alaska or municipalities of
28 the State of Alaska;

29 (3) obligations secured by reserves paid in by the United

Introduced: 2/11/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 210

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE -- FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act providing for interim management of the
7 Alaska Permanent Fund; and providing for an effective
8 date."

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

10 * Section 1. AS 37.10 is amended by adding a new section in art. 3 to
11 read:

12 Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a)

13 The Alaska Permanent Fund consists of 25 per cent of all mineral lease
14 rentals, royalties, royalty sale proceeds, federal mineral revenue
15 sharing payments and bonuses received by the state. The commissioner
16 of revenue shall deposit in the Alaska Permanent Fund 25 per cent of
17 the receipts from these sources at least once each month. The commis-
18 sioner of revenue shall invest the money in the Alaska Permanent Fund
19 in income-producing investments of the following types:

20 (1) obligations of, or obligations insured or guaranteed
21 by, the United States or agencies or instrumentalities of the United
22 States;

23 (2) obligations secured by reserves paid in by the United
24 States or agencies or instrumentalities of the United States or obli-
25 gations of corporations in which the United States is a shareholder or
26 member;

27 (3) certificates of deposits issued by United States domestic
28 banks which are members of the Federal Deposit Insurance Corporation
29 and secured as to the payment of principal and interest in accordance

1 with Alaska law;

2 (4) corporate investment-grade securities;

3 (5) bankers acceptances drawn on and accepted by United
4 States banks which each have a combined capital and surplus aggregating
5 at least \$100,000,000; .

6 (6) repurchase agreements, the securities underlying the
7 agreements being any of the items in (1) - (5) of this subsection;

8 (7) deposits of federally insured savings and loan associa-
9 tions not to exceed 10 per cent of each saving and loan association's
10 deposits exclusive of federal, state, and municipal deposits;

11 (8) fixed-term certificates of debentures of federally
12 insured credit unions not to exceed 10 per cent of each credit union's
13 shares.

14 (b) The commissioner of revenue may enter into contracts provid-
15 ing for custody of securities and execution of transactions.

16 (c) The commissioner of revenue shall transfer to whatever
17 agency is established for the express purpose of managing and investing
18 the Alaska Permanent Fund all or part of the securities and money in
19 the Alaska Permanent Fund in accordance with Alaska law no later than
20 two weeks after receipt of written notice from that agency.

21 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
22 10.070(c).
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Introduced: 2/21/77
Referred: Finance

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 HOUSE BILL NO. 244

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-
7 ment of Revenue for the interim management of the
8 Alaska Permanent Fund; and providing for an effective
9 date."

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

11 * Section 1. The sum of \$62,600 is appropriated from the general fund to
12 the Department of Revenue for the interim management of the Alaska Permanent
13 Fund.

14 * Sec. 2. The unexpended and unobligated balance of the appropriation
15 made by this Act lapses into the general fund June 30, 1978.

16 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
17 070(c).

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Introduced: 5/5/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 525

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the distribution of income from
7 the Alaska Permanent Fund; amending rules of procedure;
8 and providing for an effective date."

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

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

11 CHAPTER 18. DISTRIBUTION OF INCOME FROM ALASKA PERMANENT FUND.

12 Sec. 37.18.010. POLICY, FINDINGS, AND PURPOSE. (a) It is the
13 duty and policy of the state with respect to the natural resources
14 belonging to it and the income derived from them to provide for their
15 utilization, development, and conservation for the maximum benefit of
16 its people.

17 (b) The legislature finds that there exists in Alaska a serious
18 problem of population turnover. A substantial portion of the state's
19 population is comprised of individuals who reside in Alaska for only a
20 relatively short period of time. This is especially true in the
21 state's larger cities. This constant turnover in population leads to
22 political, economic, and social instability and is harmful to the
23 state. It is in the public interest for the state to promote a stable
24 resident population.

25 (c) The legislature also finds that the demands on and costs of
26 state government have increased over the past few years at an excessive
27 rate and that this increase has been permitted to occur, at least in
28 part, by a feeling on the part of much of the electorate that those
29 demands and costs do not have a significant economic impact upon them

Introduced: 1/31/77
Referred: Rules

file copy

1 IN THE HOUSE

BY SWANSON

2 HOUSE RESOLUTION NO. 7

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Requesting a House special committee on
6 the permanent fund.

7 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

8 WHEREAS, on November 2, 1976, the majority of the voters of the State of
9 Alaska approved a constitutional amendment to establish a permanent fund
10 whereby not less than twenty-five per cent of the rentals, royalties, certain
11 shared revenues and other proceeds would be set aside and invested in income-
12 producing investments; and

13 WHEREAS the constitutional amendment approved by the voters directs
14 investment of the revenues derived from the state's nonrenewable resources
15 only in investments specifically designated by law; and

16 WHEREAS the establishment and implementation of a permanent fund repre-
17 sents an opportunity for the State of Alaska to provide for long-term
18 planning and support of the development of Alaska's renewable resources and
19 other elements of the economy and will contribute to improvement of the
20 economic life of Alaska for the benefit of the present and future generations;
21 and

22 WHEREAS the Alaska State Legislature has a paramount role in the estab-
23 lishment and operation of a permanent fund in that it shall determine the
24 structure of the fund and define the scope of permissible investments;

25 BE IT RESOLVED by the Alaska House of Representatives that the Speaker
26 of the House of Representatives appoint a special committee of not more than
27 five members of the House to constitute a working committee to study alter-
28 natives in the implementation of an Alaska permanent fund and to report its
29 recommendations to the members of the House.

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Introduced: 5/2/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

1 IN THE HOUSE

BY GRUENING, GARDINER AND MEEKINS

2 HOUSE BILL NO. 515

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Permanent Fund."

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

8 * Section 1. AS 37.10 is amended by adding a new section to read:

9 Sec. 37.10.055. DEPOSIT IN ALASKA PERMANENT FUND. The commis-
10 sioner of revenue shall deposit in the Alaska Permanent Fund at least
11 once each month 25 per cent of the receipts from all mineral lease
12 rentals, royalties, royalty sale proceeds, federal mineral revenue-
13 sharing payments and bonuses received by the state, except that, com-
14 mencing July 1, 1978 and terminating July 1, 1985, the amount deposited
15 by the commissioner in the Alaska Permanent Fund under this section
16 shall be (1) at least 37.4 per cent of the receipts from these sources
17 or (2) if the legislature determines by joint resolution that another
18 percentage would, because of revised revenue estimates, be more appro-
19 priate to insure that the total deposit will result in the sum of
20 \$900,600,000 being deposited by July 1, 1985, in addition to the sum
21 resulting from the 25 per cent deposit, then that percentage.

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In Senate Person: Fund Comm. file copy

Introduced: 5/5/77
Referred: Interim Committee on
the Alaska Permanent Fund and
Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 348

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the distribution of income from
7 the Alaska Permanent Fund; amending rules of procedure;
8 and providing for an effective date."

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

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

11 CHAPTER 18. DISTRIBUTION OF INCOME FROM ALASKA PERMANENT FUND.

12 Sec. 37.18.010. POLICY, FINDINGS, AND PURPOSE. (a) It is the
13 duty and policy of the state with respect to the natural resources
14 belonging to it and the income derived from them to provide for their
15 utilization, development, and conservation for the maximum benefit of
16 its people.

17 (b) The legislature finds that there exists in Alaska a serious
18 problem of population turnover. A substantial portion of the state's
19 population is comprised of individuals who reside in Alaska for only a
20 relatively short period of time. This is especially true in the
21 state's larger cities. This constant turnover in population leads to
22 political, economic, and social instability and is harmful to the
23 state. It is in the public interest for the state to promote a stable
24 resident population.

25 (c) The legislature also finds that the demands on and costs of
26 state government have increased over the past few years at an excessive
27 rate and that this increase has been permitted to occur, at least in
28 part, by a feeling on the part of much of the electorate that those
29 demands and costs do not have a significant economic impact upon them

1 personally. It is in the public interest for the state to promote the
2 involvement of its citizens in the budget making process by providing
3 them with a more personal and direct stake in the outcome of budget
4 decisions.

5 (d) The legislature finds that establishment of a mechanism for
6 direct distribution to the people of at least half of the annual
7 income of the Alaska Permanent Fund, and by which an individual's
8 portion of that distribution will increase the longer he continues to
9 be an Alaska resident, will promote the purposes of encouraging a
10 stable resident population, and of providing the people with a more
11 personal and direct stake in the outcome of the state's budget decisions,
12 and ensure an equitable distribution of at least a portion of Alaska's
13 resource wealth among Alaska's citizens, who are its equitable owners.

14 Sec. 37.18.020. TOTAL AMOUNT OF ANNUAL DISTRIBUTION. No later
15 than the second day of each regular session of the legislature, the
16 commissioner shall report to the governor and the legislature on the
17 income from the Alaska Permanent Fund deposited in the general fund
18 during the fiscal year which ended on the preceding June 30. The
19 legislature shall appropriate at least 50 per cent of that amount to
20 the department for distribution under sec. 80 of this chapter.

21 Sec. 37.18.030. AMOUNT OF ANNUAL PAYMENTS. Each of the annual
22 payments to be distributed under sec. 80 of this chapter shall be
23 equal to the quotient of the amount appropriated pursuant to sec. 20
24 of this chapter divided by the total number of duly credited shares as
25 of December 31 of the year last preceding the year in which the appro-
26 priation was made.

27 Sec. 37.18.040. ELIGIBILITY FOR SHARES. (a) As of December 31,
28 1979, each eligible resident of Alaska who makes timely application
29 under sec. 70 of this chapter shall be credited by the commissioner

1 with one share under this chapter for each five-year period since
2 January 1, 1974, in which he has been an eligible resident, as defined
3 in sec. 100 of this chapter, or would have been but for being too
4 young by five years or less to register to vote.

5 (b) Shares are not transferable in any way whatsoever, and no
6 payments may be made, other than as expressly provided in sec. 80 of
7 this chapter, to anyone other than the eligible resident. Shares do
8 not survive the death of their holder, and any alienation is void as
9 against public policy. If a share should be declared or ordered by a
10 court to be alienated in any way, it ceases to exist for purposes of
11 this chapter until and unless it is restored to the person from whom
12 it was alienated.

13 Sec. 37.18.050. ELIGIBILITY FOR ANNUAL PAYMENTS. Each eligible
14 resident of Alaska, who has one or more shares under this chapter, and
15 who makes timely application under sec. 70 of this chapter, shall
16 receive one annual payment for each share to which he is entitled
17 under sec. 40 of this chapter.

18 Sec. 37.18.060. DETERMINATION OF ELIGIBILITY. (a) Any person
19 who applies for a share or for an annual payment or payments must make
20 proof of eligibility satisfactory to the commissioner. The commis-
21 sioner may not credit any person with a share or make a payment to any
22 person until and unless proof of that person's eligibility sufficient
23 to satisfy a reasonable person has been made to the commissioner.

24 (b) Proof of eligibilty may be made by applicants from school
25 attendance records, state and local tax and licensing records, voter
26 registration records, birth and marriage certificates, selective
27 service records, sworn affidavits from others having knowledge of a
28 person's residence, and other forms of documentary evidence which a
29 reasonable person would rely on in the conduct of his own affairs. An

1 affidavit from an applicant without supporting evidence of eligibility
2 is not satisfactory proof of eligibility.

3 (c) A person may attempt to make proof by waiving his right to
4 privacy and authorizing the commissioner to make a search of any and
5 all local, state, and federal records and any private employment
6 records which may tend to prove his eligibility. The commissioner's
7 making any search of records is entirely discretionary, and he is
8 under no duty to make the search or to exercise reasonable care in
9 making the search, if he does so; the entire risk is upon the applicant.

10 (d) Upon his determination of a person's eligibility for a share
11 or for an annual payment, the commissioner shall, by first class mail,
12 notify the person of that determination. If the person is determined
13 to be ineligible, he shall be informed by certified mail, of the
14 following:

15 (1) the reason for his ineligibility;

16 (2) that he may file additional proof and/or file a request
17 for a hearing before the commissioner at which to present proof of his
18 eligibility; and

19 (3) that his failure to do one or the other within 30 days
20 makes the decision final and unappealable.

21 (e) If a person does not file additional proof or file a request
22 for a hearing with the commissioner within 30 days after his receipt
23 of the commissioner's notice of the determination, the commissioner's
24 decision becomes final as to the period involved and there can be no
25 further appeal. This time limit is jurisdictional.

26 (f) If a person files additional proof or files a request for a
27 hearing with the commissioner within 30 days after he receives the
28 commissioner's notice of the determination and, after the additional
29 evidence has been considered or the hearing held, he is still deter-

1 ained to be ineligible, he may appeal to the superior court within 30
2 days after he receives notice of the final decision. This time limit
3 is jurisdictional, and no suit may be brought after it has elapsed.
4 In considering the appeal, the superior court is to review solely on
5 the record which was before the commissioner and to use the reasonable-
6 basis test on factual matters and its own judgment on the law. The
7 same standard of review shall apply, if a further appeal is taken to
8 the supreme court. This requirement is substantive, not procedural.

9 (g) A person not eligible as of December 31 in any year may
10 establish or reestablish eligibility as of December 31 in subsequent
11 years.

12 Sec. 37.18.070. APPLICATION PERIOD. (a) In order to receive a
13 payment or to be credited with a share, an eligible person must first
14 apply for one or both on the Alaska net income tax form or on another
15 form provided by the commissioner.

16 (b) The application covers the last preceding period ending on
17 December 31 in which the applicant was eligible for a payment or to be
18 credited with a share or both.

19 (c) The application, together with the proof of eligibility
20 required by sec. 60 of this chapter, for the year or five-year period
21 claimed as of December 31 must be filed with the commissioner or, if
22 mailed, postmarked no later than the following April 15. This filing
23 date is mandatory. Any applications not timely filed or postmarked
24 will be returned and the applicant is not eligible for the year for
25 which the late application was made. This provision does not bar
26 subsequent presentation of additional proof of eligibility so long as
27 the application was timely filed. A year for which a person would
28 have been eligible but for his failure to file a timely application
29 may subsequently be counted toward a five-year period to be eligible

1 for a share under this chapter.

2 Sec. 37.18.080. ANNUAL PAYMENTS. (a) Payments shall be made as
3 soon as practical after January 1 of the year following the application.

4 (b) If the payment is to a person presently incarcerated as
5 punishment for committing a crime, it shall be made to the Department
6 of Health and Social Services to offset the expense to the state of
7 the incarceration.

8 (c) At the request of the person to whom payments are to be
9 distributed and to the extent allowed under federal law, distribution
10 of payments may be deferred or otherwise set aside so as to defer the
11 payment of income taxes. Payments may also be made as tax credits or
12 rebates at the request of the person to whom payments are to be
13 distributed.

14 Sec. 37.18.090. PENALTIES. (a) Any person who wilfully submits
15 false or misleading information to the commissioner in making proof of
16 his eligibility or of the eligibility of another is guilty of a mis-
17 demeanor.

18 (b) In addition to any criminal penalties imposed, any person
19 convicted of violating (a) of this section whose conviction is not
20 reversed is not, and can never become, an eligible resident under this
21 chapter, forfeits any shares with which he may have been credited, and
22 is not, and can never become, eligible to be credited with any shares
23 or to receive any payments.

24 Sec. 37.18.100. DEFINITIONS. In this chapter, unless the context
25 requires otherwise,

26 (1) "commissioner" means the commissioner of revenue or his
27 designee;

28 (2) "department" means the Department of Revenue;

29 (3) "eligible resident" means any person who is registered

1 to vote under the Election Code, is a resident of Alaska under AS
2 15.05.020, filed (or whose parent or parents filed) a resident Alaska
3 income tax return for the year preceding his application, and was
4 physically present in Alaska for more than one-half the period between
5 January 1 and December 31 last preceding his application for one or
6 more payments, for a share, or both, or who, if not so physically
7 present was temporarily absent for reasons of professional, vocational
8 or other special education for which a comparable program was not
9 reasonably available in Alaska, post-secondary education, military
10 service, medical treatment, or service in Congress;

11 (4) "five-year period" includes any cumulation of periods
12 within a span of no more than 10 years which totals five full years;

13 (5) "share" means a right to receive payment from the
14 annual distribution made under this chapter and credited by the
15 department to an eligible resident.

16 Sec. 37.18.110. NONSEVERABILITY. If the residency requirements
17 of this chapter are invalid, the provision is nonseverable, and the
18 entire chapter is invalid and of no force or effect.

19 * Sec. 2. In sec. 1 of this Act, the enactment of AS 37.18.060(e) and
20 (f) has the effect of imposing a jurisdictional limitation on the operation
21 of Appellate Rule 45, Alaska Rules of Court Procedure, in that an appeal
22 under the rule (having to do with appeals from administrative decisions to
23 the superior court) must be brought from the commissioner's decisions as to
24 eligibility within 30 days or the courts will have no jurisdiction to hear
25 it. This is an exercise of the legislature's authority over the jurisdic-
26 tion of the courts, but because it also effects an implied, narrow amend-
27 ment to Appellate Rule 45 by imposing this jurisdictional time limit instead
28 of the procedural time limit of the same duration which will continue to
29 apply to other appeals, this section has also been included.

1 * Sec. 3. This Act takes effect immediately, the first distribution
2 shall be made as soon as practicable after January 1, 1980, based on income
3 received during the fiscal years 1977 through 1979 to persons eligible as
4 of January 1, 1979.

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II. Review of the public mandate

A. Public Forum results.

1. Anchorage/Southcentral - 39% favored loans for development of renewable resource industries. Also some for new oil and gas money.
2. Fairbanks - Highest of all areas, 41% of Fairbanksans said they wanted the permanent fund to be loaned to develop renewable resource industries.
3. Southeast - 32% people (twice the percentage of any other option) said loan for development of renewable resources. A quote from the Public Forum Proceedings: "The enormous response to this choice as the top priority use of oil and gas revenues, set the tone for the regional workshop and most of the meetings from Skagway to Metlakatla."
4. Northern - 15% of people preferred loans for renewable resource industries (not a majority).

B. Town Meeting on Energy

1. Solar energy practical in the Fairbanks area? 62% yes; 16% no; 22% not sure.
2. Priorities for research support:

1st - solar	4th - hydroelectric
2nd - geothermal	5th - synthetic fuels
3rd - coal	6th - oil and gas

C. Statement of the clear public mandate. To use the permanent fund and similar state funds such as the Renewable Resources Development Fund.

III. Plan: In order to accomplish this goal, financial support needs to be

significant enough to administer a small program, preferably through the present University of Alaska research administration, the office of the Vice Chancellor for Research. This office is required to insure accountability of research and coordinate work at the investigator level to be sure that a consistent, constructive program is maintained. This would require a basic allotment which should be adequate for paying for additional administration plus overhead, and should include an inflation-equalizing mechanism to be sure that inflation is accounted for. Also, the present research system requires that proposals for research be formal, specific and detailed which is very beneficial, since it is a good indication of the depth, preparedness, and competence which the proposer possesses. However, proposals require considerable time -- time which is expensive and not spent in ongoing research. For this reason, it is highly recommended that some funds be made available for proposal writing. Since about 20% of a researcher's time is spent on proposal and proposal research, it is felt that 20% of the annual research funds granted for this proposal be earmarked for proposal support.

The level of support for an ongoing Alaska Renewable Energy Research Unit depends on several elements:

1. The amount of money available from the aforementioned Renewable Resources Development Fund, the Permanent Fund earnings, and other resources,
2. The level of support necessary to provide an adequate support and research program, including what is felt to be "adequate."
3. The political importance and priority of developing alternative renewable energy resources for Alaska. This money should be

made available to fund proposals directly involving Alaska - specific energy research, but should also be available for use as seed money to solicit federal or other outside funds when the opportunity is available. In this way, maximum beneficial use can be made of the annual allotment money.

As a last feature of the program, we suggest that the program be given a reasonable degree of political autonomy, i.e. that the legislature appropriate the money at least biennially, with review every two or five years. In this way no bureaucracy need be created to administer the monies, other than the aforementioned administration. An additional policy or administrative agency is not deemed necessary to achieve the goals of this program. It can be efficiently accommodated within the present university research structure. In this way the multi-disciplinary nature of alternative renewable energy research can also be facilitated with a high degree of communication. Research results and findings can be distributed to the interested public through publications and the State Cooperative Extension Service.

The philosophical basis for this energy research is an important factor. It is very prudent and wise to move our energy demand to the renewable resources in Alaska, especially since it can be aided by the substantial amount of non-renewable capital. Lack of capital investment in both research and demonstration has always been a deterrent to the use of renewable resources. Alaska has no shortage of opportunity for renewable resources, but research in the past has suffered because Alaska-specific research was not

always relevant to "lower 48" problems. Consequently the federal government would balk at the funding of esoteric research. Alaska now has the opportunity to lead the way in researching and demonstrating its renewable resource potential and can provide a valuable research program to be used and modeled by other states and Canada.

Use of fossil fuels for space heating and power generation is becoming very expensive, and petroleum and coal are extremely valuable, too valuable in fact to continue to burn them unnecessarily. When we can use something else for power which is adequate, safe, and renewable, surely we should do so whenever possible. Renewable resources potentially can provide substantial amounts of energy to both urban and rural Alaska if fully developed in an environmentally aware and humanly concerned manner. Walt Kelly's Pogo comic strip has supplied one of the most relevant of quotes for Alaskans: "We are confronted with insurmountable opportunities." Although Alaska has many opportunities which it cannot surmount for various reasons, the establishment of a renewable energy resources research and development program is simply a matter of having the will and foresight to commit our permanent fund resources to this plan. It can be a great service to Alaskans and to the nation to provide badly needed development experience in renewable energy resources.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS TIM WALLIS, PRESIDENT OF DOYON, LIMITED. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU AND THE COMMITTEE FOR TRAVELING TO FAIRBANKS TO RECEIVE PUBLIC INPUT ON THE PERMANENT FUND. IN THE EARLY STAGE OF THE CREATION OF THE PERMANENT FUND, AT WHICH TIME I WAS A MEMBER OF THE LEGISLATURE, I OPPOSED THE CREATION OF THE PERMANENT FUND. AFTER FURTHER CONSIDERATION I CHANGED MY POSITION AND VOTED FOR THE PERMANENT FUND LEGISLATION THAT WAS VETOED, AND VOTED FOR THE CONSTITUTIONAL AMENDMENT FOR THE CREATION OF THE PERMANENT FUND. AS A RESULT, COMMENTS OR CRITICISMS THAT I MAKE NOW OR IN THE FUTURE I HOPE WILL BE TAKEN IN THE MANNER THAT I AM TRYING TO ASSIST IN ESTABLISHING A WORKABLE PERMANENT FUND.

DOYON, LIMITED HAS SPENT CONSIDERABLE TIME AND EFFORT TO EXAMINE THE PROPOSALS FOR THE PERMANENT FUND. BECAUSE OF OTHER PRESSING ISSUES, IN PARTICULAR THE D-2 ISSUE, I AM NOT FULLY PREPARED TO COMMENT ON ALL ASPECTS OF THE LEGISLATION. WITH THE COMMITTEE'S PERMISSION, I INTEND TO SUBMIT FURTHER TESTIMONY AT A LATER DATE TO BECOME PART OF THE COMMITTEE'S FORMAL RECORD. ALSO, I WOULD INTEND ON TALKING TO YOU AND OTHER COMMITTEE MEMBERS ON AN INDIVIDUAL BASIS AS A PERMANENT FUND CONCEPT WINDS ITS WAY THROUGH THE LEGISLATIVE PROCESS.

THERE ARE A COUPLE OF POINTS I WOULD LIKE TO MAKE FOR THE COMMITTEE'S CONSIDERATION AT THIS TIME. FIRST, I RECOMMEND THAT THE LEGISLATION BE STRUCTURED SO THAT THE MAXIMUM AMOUNT OF LEVERAGE CAN BE OBTAINED FROM THE PRUDENT USE OF THE FUND. CERTAINLY THE SAME LEVERAGE TOOLS COMMONLY USED BY PRIVATE SECTOR MONEY MANAGERS SHOULD BE AVAILABLE TO THE MANAGERS OF THE PERMANENT FUND. THERE ARE AT LEAST FOUR WAYS THAT INCREASED LEVERAGE CAN BE ACCOMPLISHED IN THIS LEGISLATION:

1. THE FUND SHOULD BE PERMITTED TO PURCHASE EQUITY SECURITIES. THIS WOULD PERMIT PRIVATE VENTURERS TO RAISE MORE FUNDS FROM THE PRIVATE MONEY MARKET THAN MIGHT OTHERWISE BE POSSIBLE.
2. THE FUND SHOULD BE AUTHORIZED TO SUBORDINATE ITS LOAN POSITION IN FAVOR OF PRIVATE BORROWERS IN LARGE SCALE PRIVATE DEVELOPMENT PROJECTS. SUBORDINATION IS A TIME-TESTED TOOL WHICH CAN BE INVALUABLE FOR ALASKAN DEVELOPMENT PROJECTS WHEN EXERCISED WITH CARE BY FUND MANAGERS.
3. THE FUND SHOULD BE PERMITTED TO PARTICIPATE IN SYNDICATED LOAN ARRANGEMENTS. ONCE AGAIN, THIS IS PARTICULARLY IMPORTANT IN THE CASE OF LARGE SCALE PROJECTS.

4. FUND MEMBERS SHOULD BE PERMITTED TO MAKE LOAN GUARANTEES. LOAN GUARANTEES BY THE FUND WOULD INCREASE THE DEBT CAPACITY OF ALASKAN BORROWERS IMMEASURABLY. A DEBT GUARANTEED BY THE FUND COULD BE USED TO ATTRACT PRIVATE MONEY AT FAVORABLE INTEREST RATES AT NO DIRECT COST TO THE STATE. SUCH FAVORABLE INTEREST RATES MIGHT EVEN MAKE MARGINAL PROJECTS FEASIBLE, OR REDUCE THE RISK PREMIUM FOR HIGH-RISK PROJECTS.

IT SEEMS TO ME THAT A PRIMARY OBJECTIVE OF THE FUND SHOULD BE THE ATTRACTION OF PRIVATE CAPITAL TO ALASKA BY USING THESE TOOLS AND PERHAPS OTHERS THE FUND COULD BECOME A DYNAMIC FORCE IN IMPROVING OUR STATE FAR BEYOND PROPORTION TO THE FUND'S SIZE. I ENCOURAGE YOU STRONGLY TO GIVE THE MANAGERS OF THE FUND THE WIDEST POSSIBLE DISCRETION IN USING TOOLS TO INCREASE THE LEVERAGE OF THE FUND TO ATTRACT PRIVATE CAPITAL. IT APPEARS THAT GREAT DISCRETION WILL HAVE TO BE PLACED IN THESE MANAGERS IN ANY EVENT, SINCE THEY WILL HAVE CUSTODIANSHIP FOR A BILLION-DOLLAR-PLUS FUND. IT ONLY MAKES GOOD SENSE TO GO ONE STEP FURTHER AND GIVE THEM THE SAME KIND OF INVESTMENT TOOLS THAT RESPONSIBLE MONEY MANAGERS HAVE IN THE PRIVATE SECTOR.

MY SECOND POINT WILL BE BRIEF. I BELIEVE THE PORTION OF THE BILL CALLING FOR A POSSIBLE INVESTMENT OF 30% OF THE FUND IN "COMMUNITY DEVELOPMENT PROJECTS OF MUNICIPALITIES

AND PUBLIC CORPORATIONS" MAY NEED TO BE SPELLED OUT IN MORE DETAIL IN THE STATUTE. IF THAT SIZABLE PORTION OF THE FUND IS GOING TO BE AVAILABLE FOR THIS TYPE OF INVESTMENT THE DEFINITION OF COMMUNITY DEVELOPMENT PROJECTS SHOULD BE BROADLY CONSTRUED. FOR EXAMPLE, IN MANY LARGE SCALE PRIVATE DEVELOPMENT PROJECTS MANY QUASI-PUBLIC FACILITIES SUCH AS ROADS AND HEALTH CARE CENTERS MUST BE CONSTRUCTED. I BELIEVE THAT SOME FUND MONIES SHOULD BE AVAILABLE TO PRIVATE FIRMS CONSTRUCTING THESE QUASI-PUBLIC FACILITIES SUBJECT TO COVENANCE. THIS SECTION WOULD PERMIT PRIVATE COMPANIES WHICH MUST CONSTRUCT QUASI-PUBLIC FACILITIES ACCESS TO THE FUND. CERTAINLY MANY SAFEGUARDS COULD BE BUILT INTO THE ADMINISTRATIVE ORGANIZATIONS WHICH WOULD REQUIRE THAT THESE QUASI-PUBLIC FACILITIES SO FINANCED WOULD BE AVAILABLE FOR PUBLIC USE AT SOME SPECIFIED TIME. I RECOMMEND THE BROADENING OF THE LANGUAGE OF THE LEGISLATION TO INCLUDE PUBLIC TYPE INVESTMENTS BY PRIVATE COMPANIES. THE CURRENT LANGUAGE LIMITING INVESTMENTS TO MUNICIPALITIES OR PUBLIC CORPORATIONS IS TOO NARROW AND UNDULY RESTRICTIVE. AS I INIDCATED AT THE BEGINING OF MY REMARKS, DOYON, LIMITED WILL HAVE MORE DETAILED PROPOSALS AT A LATER TIME.

I AM CERTAIN THAT WITHIN THE NEXT FEW MONTHS A CONSTRUCTIVE AND IMAGINATIVE BILL CAN BE DRAFTED TO MEET THE MANIFOLD NEEDS OF ALASKA'S ECONOMY.

*Send to Gardner
Lone*

Permanent Fund
RI/ 9/14/77
1/3

My name is Ronald Inouye. I am a resident of Fairbanks and am employed at the University. My comments to you are strictly my own.

I appreciate this opportunity to share with you a few of my concerns regarding the Permanent Fund. Although the thoughts I will express may not fit directly into what may currently be the focus of this Committee's discussions, I do hope that a few of the ideas may creep into some of the Committee's minds and find a hospitable niche, to be retrieved at the appropriate time.

My plea is a pretty standard one, that of increasing help to state agencies for the preservation of historic and cultural artifacts and manuscripts. I believe we are all aware if the usual arguments for such material culture and manuscript preservation pleas resulting from vanishing lifestyles, big time economics decimating human values, etc., and those arguments still hold. However, I would like to pursue the issue a bit differently.

If the purpose of the Permanent Fund is essentially economic and your concerns are about accruing interest and getting "a good return for our dollar" I would like you to consider the following.

Tourism is a larger and larger part of our state's economy. Why do tourists come here? I bet it's not to see how many new homes have been built in Anchorage or Anaktuvuk or to shop in any of the new malls popping up all over the state like puffballs after a lucrative rain. Many of those tourists come up to see the undeveloped land and to look at the historic sites and artifacts of the past. The tourists love the local museums and historic buildings. They stay in hotels and spend money on transportation and meals when they visit those museums and historic places. Without those records of the past, the tourists

wouldn't be here.

What economic contribution comes from the current educational and research communities of our state which use as their raw material the resources of the past now discreetly preserved and made available for present use? Take a look not only at those on private and state payrolls servicing museums, archives and libraries, but also those who make use of the collections of those institutions. These depositories of information are located all over the state from Ketchikan to Barrow. The users of those depositories include the lawyer, the corporation executive, the environmental impact statement compiler-- all of whom are linked in their work to information from the past. They indirectly make their livings too from the past.

Needless to say I believe that there is a long-term return on the dollar for every penny spent by our state government in historic preservation and the acquisition and care of historic manuscripts and material culture collections. These are the kinds of things which I believe the state should be promoting too through its "Permanent Fund" development.

And while I believe that "Permanent Fund" monies should be partially devoted to such things I believe too that good management principles should be applied in the management of those monies.

Several years ago the Kate Pullen Alaska Memorabilia Collection was lost to and by the State. That historic Skagway collection was offered to the State as an intact collection and would have been an asset to the State. Unfortunately, the State was unable to get its act together and the Pullen Collection was sold off piecemeal to the highest bidder in Seattle. I was in Seattle during the sale and saw Alaskans there trying to retrieve bits and pieces so the items could

be returned to local museums in the state.

Regardless of our personal feelings about the value of the Pullen Collection, the situation points out that our state has inadequate policies to deal with such situations.

When first teaching in Ketchikan I was very interested in having students learn more about the Northwest coast artstyles, particularly that done in Southeast. In checking for good examples from the late 1800's and early part of this century I found that my students would need to go to Portland or Leningrad or Denver to see them. Is there not a way that some of those items could be returned to Alaska?

I feel guilty and powerless to do anything whenever I hear about another art dealer from Seattle, or Anchorage for that matter, buying another collection for disposition when really the State has a legitimate right to look out for the public's interest in such situations. This pattern continues because we have yet to find a creative way to ensure that the cultural materials and manuscripts of significance stay in Alaska, open for public use. Had we conceived of those materials initially as resources of increasing value and developed good management policies for their acquisition and use, we would not now be wringing our hands and bemoaning the loss of so many valuable aspects of our state's history.

Thank you.



Rep Russ Meekin Box 562
Fairbanks, Alaska

September 14, 1977

The Pod contains seeds from potatoes grown
in Ruby, Alaska this summer. The seeds can
State of Alaska be saved & planted a year or
Permanent Fund Hearings a thousand years from
Fairbanks, Alaska now, sort of a
living trust.

Gentlemen:

I am Jack O. Nakkila of
Fairbanks, Alaska. I am an
economist and business
consultant for Alaskan and
international ventures to include
development of agriculture,
offshore oil drilling, thermal solar
energy and interstellar travel.

The following is my testimony.

Sincerely,

Jack O. Nakkila

Testimony on State of Alaska Permanent Fund

Hearings: Fairbanks, Alaska Sept 14, 1977

Jack O. Hakikila

The Alaskan Permanent Fund through its creation has two immediate important connotations. It is permanent and it is for Alaskans. As a permanent fund for development purposes, it is important that long term goals for development of the state be established concurrently. And having as its objective, the assistance to Alaskan business development, it is important that the goals be achieved through the administration of the fund by Alaskans.

It appears through the handling of consultant roles through outside consultants, that once again Alaskans are being led to believe that the opportunities for investment are more golden elsewhere. Meanwhile Alaskan businessmen starve, go broke and die.

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While Alaskans are being told through the press of golden investment opportunities elsewhere, events of the past, and not too distant a past must be remembered.

The state of Alaska took in 900 million dollars through a lease sale at approximately 3000 per acre on the North slope in 1969. A good example of the efficiency of the alternative investments in outside capital markets exists in the disposition of these funds.

The basic factors of economic production for several hundred years have been recognized as land labor and capital. Land is an all inclusive term in macroeconomic usage for natural resources. Similarly in recent years, human capital has become the all inclusive term for labor and the other human factors in economic production.

-3-

While the Permanent Fund considers the disposition of that third fundamental item for economic production, capital, it must be remembered that effectively, capital can only be used with the other two resources.

Nowhere can capital be more effectively combined with natural resources and human capital than in Alaska. The construction of a single pipeline which will carry 20 percent of our nation's energy in oil is testimony to that fact.

Now let us examine where lower forty eight investment banking firms, insurance companies and banks were during the eight years from 1969-77, oil lease sale to oil flow.



I speak from personal experience.

On December 31, 1973 after spending three and one half years with New York Life Insurance Co., one of the largest of the American insurance companies, and having submitted for consideration investment proposals on shopping centers, apartment projects, and other projects such as a medical clinic, at no cost to the company, (this was a service to clients & hopefully to the company), this ^{speaker} ~~writer~~ was told that New York Life would rather invest its money in projects associated with another pipeline to Texas. Alaska is too speculative. When the Vice President making this statement was asked, which is more speculative, investing where the oil is running out or where the largest resources on the continent are being tapped, a blank stare was the reply. The mortgage

Having learned from three and one half years of experience with the leading insurance investor in Alaska that investment in Interior Alaska included the 1967 power plant at the El of Alaska and no more, that New York life was old & conservative, it would not do as a vehicle for a young & growing state, an attempt was made in 1974 to secure financing for Alaskans through private effort.

At the Bank of America, one of America's leading banks, a vice President admitted in August, 1974 that the company had twenty billion in loans it would like to consider in its own backyard. They were not interested in Alaska. Once again, ^{sound} economics could not justify business decisions.

In 1975 the firm of Merrill Lynch, Pierce, Fenner & Smith agreed to consider Alaska. While on their staff in San Francisco, the investment banking division indicated a sincere interest in Alaska. In May of

1975, the head of this firm's office doing business in Alaska told this writer, if anyone comes from New York to underwrite energy related issues, it will be for the Seattle area in nuclear power & not for oil related activity in Alaska.

Personal experience in securing investors for the greatest investment experience in history through lower forty-eight institutions has not been good. Alaskans should not be asked to commit their development funds to these institutions to squander on irresponsible projects in their own backyards. Available natural resources & human capital dictate that prudent use of our development funds lies here in Alaska. How then could the monies be used effectively in Alaska?

Let us proceed immediately to reality.

Alaskans are being asked to transmit the most fundamental resources to lower 48 markets, petrochemicals, without processing. An immediate opportunity exists for



investment in petrochemicals. Five million dollars would prove their Feasibility through a pilot plant.

The development fund could provide the basic financing for a myriad of projects which leveraged would multiply its value. Those projects planned for the oil pipeline & never built such as airplane hangars, hotels & apartments might be built through adequate mortgage financing. This financing has not been available to Alaskans because past experience has been too short to justify lending based on traditional banking evaluations.

Now let's turn for a moment to Creative Financing. Where can the greatest return be secured for society through the operation of the private enterprise system?

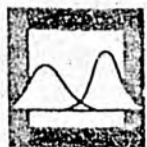


- 8 -

It was mentioned above that the basic Factors of economic production are Natural resources, human capital and Capital. Alaska will now have both Natural resources & through the creation of the permanent fund, Capital. How then might the permanent fund be used to create human capital?

It is proposed that an exchange be formed for patentable ideas.

Our system of economic enterprise operates through a system of organized markets. Stock & bond markets & commodities markets operate by bringing investor & speculator together in an organized fashion to bid on tangible and intangible products, tangible such as coffee, sugar & wheat & intangible such as stock certificates.



-9-

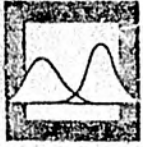
The only provision made today to capitalize on that most fundamental of economic resources ~~of~~ ^{the} inventive ingenuity, can be made through the incorporation of it's values into the price of stock of existing companies. The inventor is afforded patent protection for a period of seventeen years by the U.S. government but his patents have no exchange value on an organized exchange unless their value is incorporated into the value of stock of a company ^{which} is traded through the stock exchanges. In the case of a patent whose value lies further down the road than seventeen years, no incentive lies in its disclosure.

The most creative of our inventors are in Alaska. The Alaskan permanent Fund can be established to afford



For the provision ^{for} an exchange ~~of~~ patentable ideas ^{which would} to hold and trade ideas whose value may not be recognized for one hundred years. A system of speculative houses would be necessary. Such houses could hold ideas, with patents applied for at such time as the house deems that they might become useful. In the meantime the inventor would be rewarded and could go on to the development of his next idea.

In conclusion, creation of the Alaskan Permanent Fund for development connotes the long term goal of the economic development of the state of Alaska, most importantly the people of the state. This goal can be achieved best by using the capital of that Fund and combining it with the



SAFETY OF STRUCTURES
UNDER DYNAMIC LOADING

- 11 -

Abundant natural resources and the
creativity of the human resources of
the residents of the State of Alaska.

Clark

Jon Bennett



furnished thru
April Moore
in FBX
Arch Symposium

League of women voters; Peg Tillison

FBX

Laborex 942 McDonald

BA

Fred Hough - Joint Trades Council - retail clerks

Frank Murkowski

via Fisher onto other academics

Finn

Chuck Reed

Sandra Stinger (Bill)

Frank Delong

Neil Beck

Jon Mc Dermott

Dave Russell

Ed Perkowski

Jeff Knabel

Dr. William Phillips

A77

Oper. Eng.

Carpenters

Resources

Dr. Wm Woods

YAH

465-3782



done

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS TIM WALLIS, PRESIDENT OF DOYON, LIMITED. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU AND THE COMMITTEE FOR TRAVELING TO FAIRBANKS TO RECEIVE PUBLIC INPUT ON THE PERMANENT FUND. IN THE EARLY STAGE OF THE CREATION OF THE PERMANENT FUND, AT WHICH TIME I WAS A MEMBER OF THE LEGISLATURE, I OPPOSED THE CREATION OF THE PERMANENT FUND. AFTER FURTHER CONSIDERATION I CHANGED MY POSITION AND VOTED FOR THE PERMANENT FUND LEGISLATION THAT WAS VETOED, AND VOTED FOR THE CONSTITUTIONAL AMENDMENT FOR THE CREATION OF THE PERMANENT FUND. AS A RESULT, COMMENTS OR CRITICISMS THAT I MAKE NOW OR IN THE FUTURE I HOPE WILL BE TAKEN IN THE MANNER THAT I AM TRYING TO ASSIST IN ESTABLISHING A WORKABLE PERMANENT FUND.

DOYON, LIMITED HAS SPENT CONSIDERABLE TIME AND EFFORT TO EXAMINE THE PROPOSALS FOR THE PERMANENT FUND. BECAUSE OF OTHER PRESSING ISSUES, IN PARTICULAR THE D-2 ISSUE, I AM NOT FULLY PREPARED TO COMMENT ON ALL ASPECTS OF THE LEGISLATION. WITH THE COMMITTEE'S PERMISSION, I INTEND TO SUBMIT FURTHER TESTIMONY AT A LATER DATE TO BECOME PART OF THE COMMITTEE'S FORMAL RECORD. ALSO, I WOULD INTEND ON TALKING TO YOU AND OTHER COMMITTEE MEMBERS ON AN INDIVIDUAL BASIS AS A PERMANENT FUND CONCEPT WINDS ITS WAY THROUGH THE LEGISLATIVE PROCESS.

THERE ARE A COUPLE OF POINTS I WOULD LIKE TO MAKE FOR THE COMMITTEE'S CONSIDERATION AT THIS TIME. FIRST, I RECOMMEND THAT THE LEGISLATION BE STRUCTURED SO THAT THE MAXIMUM AMOUNT OF LEVERAGE CAN BE OBTAINED FROM THE PRUDENT USE OF THE FUND. CERTAINLY THE SAME LEVERAGE TOOLS COMMONLY USED BY PRIVATE SECTOR MONEY MANAGERS SHOULD BE AVAILABLE TO THE MANAGERS OF THE PERMANENT FUND. THERE ARE AT LEAST FOUR WAYS THAT INCREASED LEVERAGE CAN BE ACCOMPLISHED IN THIS LEGISLATION:

1. THE FUND SHOULD BE PERMITTED TO PURCHASE EQUITY SECURITIES. THIS WOULD PERMIT PRIVATE VENTURERS TO RAISE MORE FUNDS FROM THE PRIVATE MONEY MARKET THAN MIGHT OTHERWISE BE POSSIBLE.
2. THE FUND SHOULD BE AUTHORIZED TO SUBORDINATE ITS LOAN POSITION IN FAVOR OF PRIVATE BORROWERS IN LARGE SCALE PRIVATE DEVELOPMENT PROJECTS. SUBORDINATION IS A TIME-TESTED TOOL WHICH CAN BE INVALUABLE FOR ALASKAN DEVELOPMENT PROJECTS WHEN EXERCISED WITH CARE BY FUND MANAGERS.
3. THE FUND SHOULD BE PERMITTED TO PARTICIPATE IN SYNDICATED LOAN ARRANGEMENTS. ONCE AGAIN, THIS IS PARTICULARLY IMPORTANT IN THE CASE OF LARGE SCALE PROJECTS.

4. FUND MEMBERS SHOULD BE PERMITTED TO MAKE LOAN GUARANTEES. LOAN GUARANTEES BY THE FUND WOULD INCREASE THE DEBT CAPACITY OF ALASKAN BORROWERS IMMEASURABLY. A DEBT GUARANTEED BY THE FUND COULD BE USED TO ATTRACT PRIVATE MONEY AT FAVORABLE INTEREST RATES AT NO DIRECT COST TO THE STATE. SUCH FAVORABLE INTEREST RATES MIGHT EVEN MAKE MARGINAL PROJECTS FEASIBLE, OR REDUCE THE RISK PREMIUM FOR HIGH-RISK PROJECTS.

IT SEEMS TO ME THAT A PRIMARY OBJECTIVE OF THE FUND SHOULD BE THE ATTRACTION OF PRIVATE CAPITAL TO ALASKA BY USING THESE TOOLS AND PERHAPS OTHERS THE FUND COULD BECOME A DYNAMIC FORCE IN IMPROVING OUR STATE FAR BEYOND PROPORTION TO THE FUND'S SIZE. I ENCOURAGE YOU STRONGLY TO GIVE THE MANAGERS OF THE FUND THE WIDEST POSSIBLE DISCRETION IN USING TOOLS TO INCREASE THE LEVERAGE OF THE FUND TO ATTRACT PRIVATE CAPITAL. IT APPEARS THAT GREAT DISCRETION WILL HAVE TO BE PLACED IN THESE MANAGERS IN ANY EVENT, SINCE THEY WILL HAVE CUSTODIANSHIP FOR A BILLION-DOLLAR-PLUS FUND. IT ONLY MAKES GOOD SENSE TO GO ONE STEP FURTHER AND GIVE THEM THE SAME KIND OF INVESTMENT TOOLS THAT RESPONSIBLE MONEY MANAGERS HAVE IN THE PRIVATE SECTOR.

MY SECOND POINT WILL BE BRIEF. I BELIEVE THE PORTION OF THE BILL CALLING FOR A POSSIBLE INVESTMENT OF 30% OF THE FUND IN "COMMUNITY DEVELOPMENT PROJECTS OF MUNICIPALITIES

AND PUBLIC CORPORATIONS" MAY NEED TO BE SPELLED OUT IN MORE DETAIL IN THE STATUTE. IF THAT SIZABLE PORTION OF THE FUND IS GOING TO BE AVAILABLE FOR THIS TYPE OF INVESTMENT THE DEFINITION OF COMMUNITY DEVELOPMENT PROJECTS SHOULD BE BROADLY CONSTRUED. FOR EXAMPLE, IN MANY LARGE SCALE PRIVATE DEVELOPMENT PROJECTS MANY QUASI-PUBLIC FACILITIES SUCH AS ROADS AND HEALTH CARE CENTERS MUST BE CONSTRUCTED. I BELIEVE THAT SOME FUND MONIES SHOULD BE AVAILABLE TO PRIVATE FIRMS CONSTRUCTING THESE QUASI-PUBLIC FACILITIES SUBJECT TO COVENANCE. THIS SECTION WOULD PERMIT PRIVATE COMPANIES WHICH MUST CONSTRUCT QUASI-PUBLIC FACILITIES ACCESS TO THE FUND. CERTAINLY MANY SAFEGUARDS COULD BE BUILT INTO THE ADMINISTRATIVE ORGANIZATIONS WHICH WOULD REQUIRE THAT THESE QUASI-PUBLIC FACILITIES SO FINANCED WOULD BE AVAILABLE FOR PUBLIC USE AT SOME SPECIFIED TIME. I RECOMMEND THE BROADENING OF THE LANGUAGE OF THE LEGISLATION TO INCLUDE PUBLIC TYPE INVESTMENTS BY PRIVATE COMPANIES. THE CURRENT LANGUAGE LIMITING INVESTMENTS TO MUNICIPALITIES OR PUBLIC CORPORATIONS IS TOO NARROW AND UNDULY RESTRICTIVE. AS I INIDCATED AT THE BEGINING OF MY REMARKS, DOYON, LIMITED WILL HAVE MORE DETAILED PROPOSALS AT A LATER TIME.

I AM CERTAIN THAT WITHIN THE NEXT FEW MONTHS A CONSTRUCTIVE AND IMAGINATIVE BILL CAN BE DRAFTED TO MEET THE MANIFOLD NEEDS OF ALASKA'S ECONOMY.

1) Do you own or have you owned a business in Alaska?

_____ Yes

_____ No

2) If you checked "yes" to question #1, what type of business do you or have you owned?

Please explain nature of business venture:

_____ Retail sales (grocery, boats&motors, snow vehicles, etc.)

_____ Services (cafe, movie theater, professional, etc.)

_____ Other (agricultural, logging, fishing, etc.)

3) If you checked "no" to question #1, have you ever thought seriously of entering business for yourself or with partners?

_____ Yes

_____ No

Please explain type of business enterprise you would be interested in.

4) Have you ever applied for a bank loan in any of the following categories?:

_____ Home mortgage

_____ Automobile loan

_____ Home construction

_____ Agricultural loan

_____ Small business

_____ Other (please specify)

_____ Personal loan

5) If you checked any of the loan categories in question #4, was the loan/s granted or denied?

_____ Granted

_____ Denied

If denied, please explain.

- 6) Was bank consideration of your application: Satisfactory
 Unsatisfactory

Please explain.

- 7) Have you ever attempted to get loans from sources other than commercial banks?

Yes

No

If "yes", from which of the following?:

State loan

Friends or family

Federal loan

Personal resources

Credit union

Other

Please give any details you feel are relevant.

- 8) Do you think loans are adequately available to Alaska residents?

Yes

No

Please explain.

- 9) We would appreciate any further statement or information you may wish to give relevant to credit and opportunities in Alaska.

10) With which of the following state loan programs are you familiar?

- | | |
|---|---|
| <input type="checkbox"/> Veterans | <input type="checkbox"/> Fisheries Enhancement |
| <input type="checkbox"/> Small Business | <input type="checkbox"/> Commercial Fishing |
| <input type="checkbox"/> Small Business Development Corporation | <input type="checkbox"/> Alaska State Development Corporation |
| <input type="checkbox"/> Child Care | <input type="checkbox"/> Water Resources |
| <input type="checkbox"/> Tourism | <input type="checkbox"/> Alaska Housing Finance Corporation |
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Senior Citizen Housing |
| <input type="checkbox"/> Student Financial Aid | |

11) Please comment on your impressions of the state loan programs.

12) What rate of interest do you believe the state should charge for its loan programs and Permanent Fund loans?

13) With which of the following federal loan programs are you familiar?

- | | |
|---|--|
| <input type="checkbox"/> Bureau of Indian Affairs (BIA) | <input type="checkbox"/> Small Business Administration (SBA) |
| <input type="checkbox"/> Farmer's Home Administration (FHA) | <input type="checkbox"/> Other (please specify) |

What are your impressions of the federal loan programs?

14) In which areas would you like to see the Alaska Permanent Fund make loans available?

- | | |
|---|---|
| <input type="checkbox"/> None | <input type="checkbox"/> Education |
| <input type="checkbox"/> Housing | <input type="checkbox"/> Environment |
| <input type="checkbox"/> Small Business | <input type="checkbox"/> Other (please specify) |

If you have any personal ideas or suggestions regarding the Alaska Permanent Fund, please write or call. Your input will be very much appreciated as we begin formulating the legislation to determine the structure and activities of the Permanent Fund. Thank you for your cooperation.

Additional comments:

May we contact you personally or by phone? Yes No

Name _____

Address _____

Telephone _____

Please return completed questionnaire to:

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch V
Juneau, AK 99811

Telephone: 907 465-3880/465-3743

The hearing was called to order.

Present were: Clark Gruening, Chairman of the Committee, Senator Holman, Chairman of Senate Spec. Com. on P.F., ^{Robert Rogest} ^{Com. ment} Schaefer Hayer, Hungen, Gardner, ^{Doogan} ^{to Com. ment} Charlie Parr

Chm. Gruening introduced the Com. and the

and called for comments, criticisms, suggestions from the audience on the bills.

Mr. Robert Rogest suggested that the P.F. be used for ^{100%} structures with high energy efficiency. The economical aspects both monetary and ^{structural} are He explained that high energy efficiency are more conducive ^{to} alternate energy sources for heating, and used his home as an example.

Ed Calhoun of Fbks. expressed his opinion that the P.F. could be used as a tool to constrain ^{state} spending for now, later on to ^{replace} ^{the} ^{methods} that the St. now uses to take in \$. W a St Budget of 889 million, if the P.F. contain 20-30 billion could not the interest maintain the whole St. budget. He suggested that the St. do everything in its power to

HB

He complemented ~~the~~ 682 for its establishment of a public corp & particularly the growth sec because the private sec is not in the position to step into these risky investmts.

Former
Senator Paul Haugland ~~commented~~ was recognized in the audience & ~~commented to the committee that private consultant~~ & made some comments about his experience in Al. He suggested the legislature obtain the best financial ^{consult} possible.
Kevin Heron - Fols B. assembly mn. suggested we need to consider what we are going to do when the oil runs out.

The committee recessed for lunch & returned at 1:30 PM w/ Chairman of the Senate Spec. Comm on the form Frank George Johnson also present.

Alan Bloom ^{recommended the} ~~suggested a use of~~ 7% of the interest returned from ~~the~~ ^{primary} investment from the plerim fund. ~~for~~ ~~by~~ earmarking a % specifically for welfare & social service delivery and cutting back appropriation from the General Fund thereby directly benefiting all taxpayers.

Tim Wallace, Pres of Canyon Ind. ~~comment~~ offered some amendments for HB 682, Pg. 1 line 24 ~~delete "constant"~~ & insert "a fluctuating".

Pg. 1 line 27 ~~delete "non-stable"~~ insert "seasonal".

Financial

90, show a more optimistic outlook
to outside investors

79.3 li 23 ^{this} involves politics more &
makes a board member answerable
to the Governor instead of two bodies.

Bond warrants for small contractor, need
most used as a use for the fund.

Harold Gilliam suggested ^F monies should be
available to municipalities ~~that~~ ~~had~~ ~~been~~ ~~overlooked~~ in
setting up the fund. ~~The money should~~
to ~~be used for low interest rate bonds~~ ~~from~~
~~municipalities~~ ^{purchase of} offered by municipalities
~~municipalities~~