SCOMM

#9:193

HOUSE SPECIAL COMMITTEE ON THE ALASKA PERMANENT FUND

Friday, July 15 1:30 p.m.
Saturday, July 16 9:00 a.m.

4th floor Jury Assembly room
Alaska Court Building
303 K Street
Anchorage, Alaska

AGENDA

FY 1977 Financial Report
Consultant Reports:
- Arlon Tussing
- Belden Daniels

Publication discussion and revision
5-year Revenue projections
Report on current Permanent Fund investments
Interim budget and plan of operations
Discussion of Permanent Fund proposals

#193

These transcripts were taken from tape recordings. They have been edited for the purpose of clarity. The original recordings are in the possession of the committee and may be heard upon request.

Proceedings

of

The House Special Committee on the Permanent Fund

COMMITTEE MEETING

July 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

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Bill Miles, Russ Meekins, Leo Schaeffer; Hugh Maline; John Rader; George Hohman.

TUSSING: I am not going to read the paper, nor am I going to go through it point by point. Frankly, it is is a little too heavily steeped in jargon and it is hard for me to get back and read it through a couple of weeks after I have done it and exorcise all of the economist catch phrases and financial catch phrases.

GRUENING: Arlon, give us a little bit of your background. There may be a few people who haven't heard of you.

TUSSING: I know almost everybody here. If they don't know me, maybe it is their hard luck. I am a adjunct professor of economics at the Institute of Social and Economic Research at the University of Alaska. I have been connected with the university in one way or another for eleven years. With the short study requested by Representative Gruening to cover some of the background of economic issues that the committee felt had not been really treated before the committee got into looking at the organization in terms of the permanent funds. I have read Dr. Daniel's paper, and let me assure you that until this morning I had never met him and we did not cooperate or collude in any way. So I found nothing in his paper that I could disagree with and a great deal I could agree with.

GRUENING: I might just introduce the committee. I am the chairman of the House Permanent Fund Committee and sitting next to me is George Hohman, the chairman of the Senate Committee on the Permanent Fund. Two members of the Senate committee are here in attendance, the president of the Senate, John Rader. At the end of the table, Senator Pat Rodey, from the Senate. On my left, from the House, is Representative Terry Gardiner who is vice chairman, and Representative Bill Miles. Going down on the right side, Representative Russ Meekins and Speaker of the House Hugh Malone who is not a member of the special committee, but has an interest in the Permanent Fund.

TUSSING: Let me emphasize one issue in particular which is mentioned in my paper but does not have---does not really focus on as much as I would like to focus on. That is that the investment policy of the Permanent Fund will have far less influence on the rate and shape of economic development in Alaska than the amount of money in the general fund and the way the general fund money is spent. For one thing, the general fund is going to be much larger than the Permanent Fund according to the kind of numbers we are talking about, as far as revenue dedications to the Permanent Fund.

A Department of Revenue projection issued in February of this year, assuming a 25% contribution revenue to the fund projected in 1985 Permanent Fund balance of $1.8 billion and a general fund balance in the same year of $6 billion, as based on the projections of existing programs and the anticipated gross rate in state spending. That $6 billion is surely not going to accumulate in the general fund. There is going to be enormous pressure to spend it. But the general fund---the money available in the general fund will be much greater than the money available in the Permanent Fund. For another reason the general fund will have more influence is that its expenditures in general move directly into a spending stream in the state's economy through payrolls and procurement while the Permanent Fund money, much of it will be invested outside and, as I will explain in a moment, probably all of it will be in effect invested outside no matter what the investment policy the Permanent Fund is.

Thirdly, the Alaska demand for Permanent Fund investments is extremely low. There is very little additional demand in terms of potential income earning projects which can be funded by the Permanent Fund which would not be funded through existing financial sources and much of my paper is devoted to this. An examination of the question of whether or not there is a capital shortage or not---in other words whether or not the existing financial institutions are sufficient mechanism to bring capital into the state.

My conclusions are this: Major industrial ventures in Alaska, and this includes ventures in fish processing, mining timber, major agriculture developments, major tourist operations, are very adequately served by existing financial institutions. That there is no financial obstacles to their continued rapid development in the state. The obstacles that exist tend to be problems of resource location and marketing regulatory problems including state leasing and permitting and federal leasing and permitting. But they are not financial problems, for the kind of large industrial venture that would significantly diversify the state's economy, or the kind of large industrial venture that would be piggyback on our oil and gas industry like petrochemical. These investments will be made by large national or multi-national corporations drawing on their regular sources of finances. For those that are independently developed within Alaska, the new ventures with new enterprises, there are a large variety of institutions in the capital market that are interested in the financing required investment.

I will give an example of this from my personal experience and involved in a new fishing port in a remote totally undeveloped site in Western Alaska. The preparatory work putting together of the land leases and getting the engineering design on the port facilities had just barely begun and we have made no public announcement of this, yet within a few weeks after this started we had been approached by three major outside banks---one New York bank, one California bank and one Canadian bank, who were very interested in putting together a financing package for this venture which is just a beginning of a conception. All of these banks have specialists to deal in Alaska and there is no lack of information to prevent them from going and looking for more information and looking for investment opportunities. They are as aware of anybody in Alaska or as aware as the managers of the Permanent Fund of the opportunities that the expansion of U. S. National Fisheries jurisdictions and the growing world demand for protein and the opportunity that it will create for bottom fisheries and other fisheries in Alaska. One of these major New York banks has a specialist who is heading up a whole team dealing with these problems specifically.

Another experience we had was that directors of the new firm were immediately inundated with approaches from friends who had invested and who were looking for places to put venture capital. High risk, high potential return ventures with large tax write offs. People come in and say I have got $29 million I have to place during this tax year, or I have got a problem. They want a potential rate of return but most of these big development ventures aren't terribly sensitive to the small differences and the amount they pay per capita. A major venture, a big venture, that where there are millions of dollars involved, those millions of dollars can carry a great deal of investment research and exploratory work on the part of either the ultimate investor or the financial intermedior, the insurance companies or brokerage houses.

So my conclusion with respect to major industrial venture, not only is there no problem, no specific problem, but that Permanent Fund investments in these ventures will essentially displace capital that would come in from the outside. So from the point of view of impact, the point of the impact in Alaska's economy, or the impact in diversification of Alaska's economy is going to be very little. A concentration on these ventures might on the other hand affect the security of the quality of the loan portfolio of the Permanent Fund because, in a sense, you are putting all your eggs in one basket called Alaska and the very thing that may make your regular revenue fall may make these investments in Alaska enterprises particularly risky.

Move on to another area in which the Permanent Fund probably has no role and no particular effect, and that is the commercial loans in the urban areas of Alaska. There is no capital shortage here. The existing financial institutions, the commercial banks, thrift institutions, factors, mortgage brokers, etc. and both the commercial and residential, it is the same way in Alaska as in the rest of the country---there is no substantial interest rate differential between Anchorage and communities of comparable size in the rest of the United States. There seems to be a greater availability of loan money, partly because the people in some of the outside financial institutions have a great faith in Alaska because the growth is assured. There is no problem, there is no capital shortage to be filled by the Permanent Fund in the area of equipment financing, the kind of item trucks, construction equipment, generators, compressors, aircraft, etc., which are movable where the financing is available from vendor to manufacturer, from equipment financing companies, from banks and smaller units from credit unions and the like. No matter where you are in Alaska, if you need a backhoe and you've got something useful to do with it, and a prospect of some income, you can finance a backhoe. There is no capital gap for the Permanent Fund to fill here. The question of utilities and other utility type interest subsidy investments is often raised and I see quite a bit of talk about the Permanent Fund providing credit to the Alaska Power Authority or to the Susitna project. This could be done but it is another incident where the Permanent Fund would probably simply be displacing money that would be available from outside. If the Susitna project is viable, if it can prove that it can pay its debts or can be financed conventionally, and the reason that---there are several reasons why the Permanent Fund should probably not be involved in financing the long term debt of the Susitna project.

First is that the Alaska Power Authority can issue tax exempt bonds, while at the same time the Permanent Fund can invest in taxable corporate bonds, for example, or federal securities that get a higher rate of return that the Alaska Power Authority or any solidly based Alaskan utility would have to pay. It makes no sense for the Permanent Fund to be getting a low rate of interest on its investments than it can get in the open market while at the same time the Alaska Power Authority doesn't get any break on the cost of capital.

Now, conceivably, the Permanent Fund could be used as a source of equity capital for joint ventures. However, going through most of the major categories of the capital market in Alaska, these are either areas which are adequately served by the existing financial institution or ones in which the Permanent Fund could probably not make a useful contribution anyway.

One area does stand out as an area of opportunity and in this very preliminary survey it seemed to me that the one capital market that is not serving its constituents well is that serving small community business, medium size business in the small communities and in the Bush in Alaska. The urban commercial banks in Alaska just don't reach out far enough. The cost of information gathering, of servicing loans, the cost of collections and repossessions, foreclosures, resale and things are just too much. Outside institutions don't deal with them. The demand is too sparse. So the tourist oriented business or a local store or a small locally owned fish processing venture or something on that order may not be able to borrow, or, for that matter, to obtain any sort of capital on terms comparable with a similar venture---a venture with similar early expectations in a major community. And so I think there is an area in which the state could look at the formation of regional development. Probably a statewide development bank would be too big and would be too far from the---the problem in the Bush and the small communities have people on the scene oriented to problems of the particular community. I would suggest looking at the possibility of setting up a state-chartered regional development bank in each of the regional corporation areas and working together with the regional corporations, or having the regional corporations participate in these rural development banks, but having a professional management supervised by the Permanent Fund using Permanent Fund money. The problem here is that I doubt whether the aggregate demand for capital from all of these banks would be greater than forty or fifty million dollars at the present time. A great number of people in smaller communities in the Bush who feel that they are not well served by the existing banking system. But the total amount of real business they would generate is relatively small and you are not talking about billions of dollars---you are talking about tens of millions most likely. Just think of what it is in the Calista region which has induced the Calista Corporation to put its money outside of the region. How much potential private investment that could be locally developed does exist? How much opportunity is there in the Calista region? It is nothing like the kind of funds we are talking about with the Permanent Fund. So I would say by and large the potential role for the Permanent Fund money in altering the shape or character of Alaska's economy on a business-like basis is rather small.

I go on to say the Permanent Fund is not a very promising tool for short economic stabilization. I am not sure how many people really think that it could be but I've heard it referred to as something that could feed money into the economy in a slump period and slow down the investment activity in a boom period. Now as far as dealing with the regular business cycle that lasts two or three years, there is a number of reasons why Permanent Fund is not a promising tool.

In the first place, its impact is less and slower than that of the general fund. The impact of the Permanent Fund investment policy is going to be very, very minor compared with what is done with the general fund. The general fund expenditures are direct injections into the state's economy. They occur now and secondly because Permanent Fund investments---many of them will simply be displacing capital which would otherwise come in but there is another fundamental problem that, even if these were not ---even if these previous problems were not involved, there is another problem that would probably make it impossible to use the Permanent Fund or general fund appropriations for that matter as a significant stabilizing force. That is by the time it takes the management to recognize that we are in an overheated boom situation that something out to be done about, we may well be approaching a turning point. So it takes some time to recognize something ought to be done. Then you have to implement the policy. And by the time the loans are made and the people or concerns who receive those loans start paying construction workers, it is very likely that we are going to be on the other part of the cycle. But the effect of the Permanent Fund---or for that matter the effect of the legislature---trying to use the capital budget as a stabilizing device is that you are going to zig when you ought to zag.

There is a very good persuasive case on the part of some economists that the federal reserve has been more often ---that the effect federal reserve policy nationally has been more often wrong than right. We could build a business cycle model of the Alaska economy and give legislators in the--- give them say $4 billion on a computer to play with. We will start the thing off at 1964 after the earthquake and see whether there is any---see what you can do on the basis of the effect on unemployment, building starts, on gross products if you have gross products, and things like that. See what happens as you try to influence the economy with this. My intuitive guess is that it would create---no matter what you did trying to do it would create oscillations in the economy that wouldn't have existed before. I just don't think that it can be done.

There is another problem. It is a practical, political one. That is, when the money is available, when you are in a recession situation, when the money is available there is resistence to spending it. You are in a boom, no matter how high the rate of inflation and how great the pressures that boom is creating on public facilities. It is going to be very hard to get anybody, whether it's in administration, legislature or managers of the Permanent Fund, to say we ought to turn off the water when the revenue is more available than it has ever been before and the needs are growing by leaps and bounds because of this boom and population influx. If you are skeptical about that, look at what happened to all the talk about stockpiling of public works projects until after the pipeline construction is over. It just is not going to happen.

Nevertheless, the Permanent Fund can be an important long-term stabilizing influence. That long-term stabilizing influence as the main intention of the people in voting the Permanent Fund and the legislature for establishing one. That is the result of the fact that state spending is the main engine of growth in Alaska. It determines in the long run the level of employment and level of population and determines the needs for government service. The principal influence of the Permanent Fund on growth and on the size of the state's economy is the amount of money it takes out of the general fund.

The Permanent Fund is going to influence the rate of growth of the state's economy, but not on the supply side. It is going [illegible] ave almost no impact on the rate of growth by the way it spends money, or the way it invests money. It will have a gigantic impact in terms of the amount of money that is dedicated to the fund because, for every hundred million a year that goes into the Permanent Fund, there is a hundred million that is not in the general fund for current operations and for state capital expenditures or for current consumption. In the next decade or two, the legislature is going to determine the rate of employment and population growth in the state and it is going to determine the rate at which the need for state services increases by the way in which it spends the money. It makes some difference whether this money is spent in tax reductions, in transfer payments such as Alaska, Inc. or welfare, on regular operations of government or on construction.

It would be worthwhile to have a comprehensive fiscal model of the state's economy so that you can look at what the differences are, but the differences aren't as important as similarity. The more you spend, the bigger the economy is going to grow, the more population we are going to have in the state and the greater the need for state services are going to be a year or two or five years down the line. So the more money that is not available for this process today, or the more money that is not spent, the smaller the employment and population base and the smaller the needs will be.

What the Permanent Fund does and its principal function and principal predictable function is that it slows down the development of the state by diverting money from current expenditure. There is hope that it creates enough income and it grows to the point where it can sustain the state expenditures that sustain the rest of the civilian economy of Alaska in those days after the oil money is gone or when the oil money levels off or when the oil money stops increasing in amount as fast as the perceived need for population are increasing.

So if you take this revenue bubble and put it in the future, you stabilize the economy. I have two final points on this. The eye of the legislature ought to be much more on the amount of money that goes into the Permanent Fund than it is now, and probably a little less on dividing up the---or deciding what kind of portfolio the fund should have. And that the 6%, say 25%, does not solve the problem, it does not---25% of the nonrecurring oil revenue going into the Permanent Fund does not do away with the revenue excess, nor does it do away with the use of this oil money to create here in Alaska an economy.

It is just not when the oil money runs down and the oil runs out, that will be a long time, but when the rate of growth of state revenue starts to slow down. So putting 25% just means you got 75% left there with an enormous growth in those years when you have got a lot of revenue and very little when the revenue stops coming. So it seems to me we ought to start thinking in terms of what kind of formula for contributions to the Permanent

Fund will stabilize or create stable growth over the long term in the general fund and to do this you have to get some view---have some philosophy of growth for the state. That is, how rapidly should the state's economy grow. As I said, the legislature is going to determine how fast the state is going to grow by the amount of the money spent.

So you need some sort of formula and it should not be a fixed percentage. It should be something on the order of after your studies have determined the 6% or annual rate of growth, the real value of the general fund expenditures is what you need to sustain the reasonable growth in the standard of living in Alaska and a reasonable rate of population growth.

So, as far as what needs to be known, the research ought be be done. I think the legislature ought to look very heavily at just what are going to be future revenue needs. What is the projected income from other sources. And just how much of that gap is going to have to be filled from mineral royalties. Assuming that Prudhoe is the last big field and put in some speculative reserves and making assumptions about the price of oil and the rate of other resource development, and you say at what point are current revenues not going to be enough to sustain the level of government, the level of population, the standard of living that we want to maintain, and that will tell you at what point you are going to have to start drawing out of the surplus in the capital fund to maintain this economy. If people are lucky, the growth will have a sufficient momentum that you will have future oil discoveries and you can keep putting off that day of reckonning, so that you may never have to draw on the accumulative surplus, much less the capital. But the principle remains the same. The most effective use of the Permanent Fund is to control what is available in the general fund, to make less available now and more available in the future. What should be in the general fund probably is the most important to know in setting up the Permanent Fund.

GRUENING: Thank you very much, Arlon. As usual, you have raised a few questions.

TUSSING: In summary, I think most of the investments of the Permanent Fund in Alaska will simply displace money that will come from somewhere else. Now it is possible to increase investment of various industries by subsidization or making loans available cheaply. The problem is that most of the ventures that would take advantage of them are ones that would be viable in any case. Both Dr. Daniels and I made the point that most new ventures, their feasibility is not very sensitive to interest. I mentioned in here that a new venture probably that expected to be able to be written off in five years or so, which means a growth cash flow is in 30 to 50% of investment capital, and when you have got to have cash flow of that magnitude, a couple percentage points difference from what you are paying for, capital is not a crucial factor.

Well, I admit there might be some cases---in fact I was going to---there will for certainty be some cases which a prudent Permanent Fund manager might reasonably deem to be a prudent investment and managers of other outside financial institutions might not. Those marginal cases are probably so limited compared to the number of---if you are going to cover those, you are probably going to be giving money at subsidized interest rates or giving higher leveraging to a lot of other people who don't need it, and in those other cases you are simply giving away potential earnings from the Permanent Fund and for the propose of backing out capital which would otherwise be there. There may be some such cases at the margin, but I am very skeptical, first, about how many there are, and too the volume in terms of capital demand, and secondly, the ability of the Permanent Fund managers to discern those. I would ask why it is if these are trustworthy investments that can earn a market rate of return and the risks are not too great, why it is that some combination of investors and lending ---why the promoters who are putting it together haven't been able to package it attractively enough that somebody will finance it in view of the enormous diversity of capital market. As I say, there is the availability of the insurance company money in large amounts for wealth secured investments of the availability of high return---high cost, high capital for the others and there is everything in between, I would just ask the question in this case, why is it that the Permanent Fund manager thinks it is so much better than the investment and there may be some---there may be some---but most of them are limited by resources or by the local interest structure or something of that nature.

GRUENING: I think Terry has a question here.

GARDINER: I have got a couple. What is the advisability of the Permanent Fund financing the El Paso gas line?

TUSSING: Well, it seems to me that the talk of the Permanent Fund financing is a political gimmick to get some support outside. There may be some resistance in Congress, the federal loan guarantees and if the State of Alaska will undertake those guarantees, maybe the Congress or somebody...

GARDINER: Are you saying that...

TUSSING: Well, I said in the past, I am skeptical about financing viability of any of the gas pipeline projects in standing on their own two feet. That is, there is an enormous danger that the full cost of service of moving the gas from Alaska to the lower 48 is more than the gas is worth in the lower 48.

If there is a national decision that we ought to have a gas pipeline from---how do you cover the risk of that possibility? The financial market---that is, the bond houses and the insurance companies who are lending other people money are not going to be satisfied with a three-to-one probability the thing is financially viable, let alone only one-in-three possibility. So people are trying to come up with ways of providing that backstop. Now the pipeline companies essentially propose the consumers provide that backstopping simply by rolled in pricing, which means that the gas utilities use the fact that they have got a lot of gas that they hang on old long term contracts at regulated prices lower than the value of the gas to---they use that to subsidize the fact that Alaska gas will go into the market at more than it's worth, more than the consumers are willing to pay. You have rolled in pricing and you have the so-called all events tariff where the gas utilities, the buyers of the gas, will sign a contract saying we will pay for it, no matter how much it costs, and even if it is interrupted. We will pay the debt service on the pipeline. We will guarantee the debt service and will sock our consumers for that debt service by adding it to the price of the other gas they get, you know, the gas that doesn't come from us.

Well, the notion of a state loan guarantee is just another attempt to find a gimmick to---or another backup for the fact that these things probably will not stand on their own feet economically. Now if there is a national decision to build a pipeline, there will be the national federal government finding some way of guaranteeing the financing. If consumer guarantees are not enough, there will be federal loan guarantees---and I really can't see Alaska coming up with a proposition that it wouldn't guarantee the bond of El Paso is going to have any effect on national decision. In fact, we may well be setting ourselves up to be sandbags on this if the commissioner of revenue comes back here and says that Secretary Blumenthal and Governor Brown and these people are going to support El Paso if we do it. And you rush it through the legislature in a special session before September 1st and the president makes his decision for Alcan on September 1st. Then they come back and say, well you lost your virginity, now we want you to do the same for the Alcan line.

The Treasury Department has been saying all along Alaska is the principal beneficiary of the pipeline. Alaska ought to be putting in the loan guarantees. Alaska ought to take the risks. And now they have got you. But what have you got? You've tied up a lot of Permanent Fund money at a public utility rate of return in a risky investment that---I want to know on these loan guarantee programs the seniority of the state's guarantee; that is, if the pipeline can't pay, if it's revenue can't pay its debt obligation, who is it---is it Alaska that gets stuck first, or is it somebody else? If Alaska is going to be hit at the bottom of the list; that is, if somebody else is going to be hit first, it is not going to have much effect on the cost of financing the pipeline in its feasibility. If Alaska is going to be hit first, we have got a very expensive continued liability on the Permanent Fund.

GRUENING: I would like to just follow that up with---do you intend to follow that question up? I just wanted---before we got off---there has been a rumor around that there is some plan to suggest the Permanent Fund get into financing the gas pipeline. But assuming there are some business risks involved, does that---would that reflect on the reason there is a cause that the producers or the lessees of that gas had not come forward to finance a line?

TUSSING: I don't see any reason why a producer should want to finance it. They are not in the gas business, they are not financial intermediaries and the cost of capital---is maybe 20% or 25% after taxes. That is their opportunity cost. Now why should they acquire a contingent liability against capital that can be invested that way but limits what they can do with it. The most they can get from money invested in the gas pipeline system is the public utility rate of return. The cost of the capital to them is much greater. ARCO cannot go out and borrow money as a public utility at the kind of rate the public utility can. If the income is not guaranteed the---proposing to set up companies to guarantee the gas pipeline their revenue, have consumer guarantees, etc. ARCO and Exxon didn't have any guarantee of revenue. And so, from their point of view, I would regard it as an outrageous suggestion. They are not going to---of the notion before the Federal Power Commission that they are going to be that enormous beneficiary from the sale of the gas. Who knows what the price is going to be and whether it is going to be a great boom. It is very minor compared with the oil revenue. If the president adopts the FCC's proposed pricing scheme, that is to price the gas at Chicago on the basis of the price of No. 2 fuel oil, to set the price at $2.25 in Chicago and subtract the cost of transportation from it, the oil companies really don't have a great interest in building that pipeline, or in helping build the pipeline.

MEEKINS: Yeah, but on the other hand, if they are concerned about, you know, increasing the wellhead and the state's case would be similar, there might be---really don't know---there might be a motivation of an extra benefit that guarantees a substantial portion of the debt would reduce not only the interest cost but the---maybe the debt equity ratio and that might possibly, I understand, decrease the---it would lower the cost of service and increase the wealth.

TUSSING: Well, it might be, but the people who are advocating this approach are those who were saying a few months ago that the cost of service would categorically have no effect on a wellhead price. As I say, when the figures came out showing that El Paso would result from the highest cost of service, they said, well the cost of transportation has no effect on the wellhead price. Now you have the same people turning around and saying, well now let's commit our Permanent Fund money to lower the cost of service to El Paso and we will more than get it back in increased wellhead price. For the same people to make both of them is not credible.

MEEKINS: I agree.

GRUENING: OK, if we can get off the reality gap...

MEEKINS: I have another question. You were talking about the various economic growth of...

...and so the question is, when you are looking at it, did you come across anything that you felt could create, whether Permanent Fund or not, could create economic growth in the state that would be real economic growth in the sense that it doesn't necessarily increase population in the state but increases real economic activity...

TUSSING: Real economic activity increases population. The mechanism is you create jobs and people come in to fill the jobs. There are people coming to Alaska and leaving all the time. It is not a question of attracting people. What happens is the higher the unemployment rate here the more of them leave after... It is essentially the same question. Now, what industries you get may affect---and others---you know, they may have a higher average wage, but of course that will affect if they have a relatively high component of skilled and technical personnel and professionals they will attract and---the people who are qualified for those. No, I don't see how over the long run you can have a large effect on the---you can't create any real economic growth in Alaska unless you know, economic activities---the rest of the United States.

Oh, economic growth is proceeding in Alaska at a very rapid rate. Alaska economy is growing faster than that of any other state in the country. We are increasing in the sense we still have the same unemployment rate, or greater, and, you know, the people after the pipeline---know what our average incomes show, but basically, we have got a bigger pie, but it is the same pie. And so what I am saying---you know, that is why I say, can you create real economic growth in the sense that people might be better off here, but it is still the same amount of people.

Well, what is better off, to reduce the seasonality? I think part of the extreme seasonality in the economy comes from the weather in the first place, but it happens because people like it. They want to go outside in the winter and they don't like to work construction in the winter. And things like that. It may be you can stabilize by spending the money on salaried state employees to work the year round in nice comfortable office buildings. That is one way of doing it. And you get...

GRUENING: Are there any other questions?

RODEY: You mentioned the Permanent Fund and financing those projects that normal private institutions won't finance. How can you avoid what Mr. Daniels called---that is Permanent Fund getting all that bad debt portfolio. There seems to be a consistent danger we are going to face as we develop some scheme for investing money.

TUSSING: If you look at the history of development bank type institutions, of special lending funds in Alaska, look at EBA, FBA, BIA loan programs, etc. If you instruct the managements to make loans only to those ventures that can't get money otherwise, you are asking them to invest in those who are, by definition, high risk ones, and you are going to have a lot of bad loans and portfolios. That is the way it is going to be. If that is alright---if this is the way of spreading the money around, well fine. When the money first started coming in, the government purchased all the land in a city and then sold it back to the people at lower prices. That is the way of getting money into the---it was an urban development program. If you want to get the money into people's hands, that is one way of doing it. You get a lot of---projects that can't get financing when you got too much money. If you are going to give it away, well there are all sorts of ways to do that.

No, I don't think you are going to avoid that. I would like to see a real audit of loan quality in the existing state revolving loan program. And what the real subsidy is. When you take into account---when you classify these loans the way the banks are suppose to classify their loans and write off the ones that are really no good and write down the ones that are only partially collectable and then add the administrative costs, and say what have we got from the agricultural---for the small business loan. It frightens me to set up a multi-billion dollar---without taking a hard look at what went wrong with the other loan programs. And taking a hard look at all these EDA projects, the EDA financing of industrial parks, the BIA industrial park projects and infra-structure projects that we were supposed to encourage in rural areas.

GRUENING: Hugh, did you have any questions?

MALONE: Thank you, Mr. Chairman. In the report that you prepared for the committee, in discussing the accumulation of surplus balances in the state general fund, it states that one way to make use of general fund balance would be to reduce the personal income tax. It says that the analysis showed a significant reduction in the general fund balance of a highly stimulative effect by the increase of disposable income increased demand, but it says that if additional revenues would be generated it would not be sufficient to maintain constant per capita at government expenditures. General fund balance would be depleted more rapidly than initial calculations indicated. It concludes by saying if the Permanent Fund is interpreted as a fund to benefit Alaskans the expansion generated by the income tax---I believe that would be the reduction of the income tax---could be the worst possible use of the general fund money. The question I have is---the next page at the bottom there, discussed an idea that has been brought up from time to time, the transfer of payment directly to individuals. That would provide an economic increase in private---my question is, would the same considerations apply to that transfer distribution of monies to some form of Alaska, Inc., would apply to an income tax cuts. That is to say that you would generate additional revenues but you generate government costs that exceeded those additional revenues in that you might have a case where the expansion generated could be the worst possible use of general fund money and would you care to comment on that?

TUSSING: OK, as I said before, we can model the different impact tax deductions of Alaska, Inc., welfare payments, increases in state operating expenses, and there would be significant differences because they will be distributed differently throughout the population by income level and by region and some would have larger impact outside the state than others and it would be worthwhile to compare them. What we are saying here is all of these things do have impact and those that feed cash directly into the economy might well have more impact---or likely to have a greater effect on the management of state services than on the secondary ability to adapt to the time at which you couldn't maintain the services of the population you created. You may be asking---you said one of these uses may be worse, probably should say among the worst, from the point of view of stabilizing the growth. It could apply to the others as well.

GRUENING: Mr. Malone.

MALONE: Thank you, Mr. Chairman. Generally, one of the ideas was discussed when the various legislation creating Permanent Fund was under consideration. One of the ideas was that there would be some sort of buffer against the decline in state revenues with the dropoff in production of mineral resources. Does that make any sense to save money for a rainy day, or is that only a question of considerations. Can you put that into perspective?

TUSSING: Alright, you can model the situation. Assume that the demand for state services is going to remain constant in per capita dollars and you can add to say---increase 2% a year and you are aiming for a population growth rate of 2% or 5% a year, something like that. Then you can put it into your model and can see how much revenue is necessary. Then you can project how much your regular taxes would maintain the same structure of personal taxes in the state, the nuisance taxes, the gasoline tax, etc., how much that rate---and how much you are going to need from supplemental sources which would be either current mineral leasing revenues or Permanent Fund income. For every rate of contribution in the Permanent Fund you can show where the lines are going to cross, the point at which the growth of the amount---the current revenue plus Permanent Fund income wouldn't be enough to sustain that level of service. Now for some amount of Permanent Fund contributions you may find that that point never comes. That the Permanent Fund may---and that you will always be able to maintain---well, your rate of increase in state services may be growing at 5% a year and the Permanent Fund's spendable income may be at 7% or something like that. It is entirely conceivable. But you would get that result only with very large early contributions, trying to minimize the budget growth---trying to keep growth in the next decade to a very low level.

If you spend 75% of the oil revenues every year, you are going to get to the point where the state's economy and the state government can no longer sustain the needs created and get to that point much faster. The model is very useful for that. The model did some preliminary projections on the basis of 25% contribution on the basis of various assumptions as to what happens to the general fund, but you can put together whatever assumptions you want. You can test various formulas for Permanent Fund contributions and come out with a theoretical golden path, where each year you assure that at least for 20 years, maybe for 30 or 50 years, there is always enough surplus revenue in the Permanent Fund to meet the requirements of the growth. But that can be accomplished only on the basis of an assumption as to what your goal is for population growth or growth of state gross income.

GRUENING: Are there any further questions of Dr. Tussing?

RADER: Doctor, in regard to the trans-Alaska gas pipeline, you are saying that if it is a viable economic project that money would be available to us at a public utility rate through normal public utility sources throughout the United States. It is possible that Alaska, in order to get in its royalty gas to tidewaters the trans-Alaska line would have an interest rate---would be justified in financing a line which would not be financable at a normal utility rate in order to have that option of 25 years of recall of our gas?

I have no idea of what the value of that option is. But I am only assuming, first of all, that you could establish going in, that the ability of Alaska to tax and the ability of Alaska to---the desirability of keeping that option of tidewater availability of oil and gas. Is there room for argument that we could participate in that situation in a project that a New York investor would not be interested in?

TUSSING: It depends how much it is worth to you to get to tidewater.

RADER: How do you think of that 25 year option with the gas pipeline? What do you think?

TUSSING: I don't think it is worth very much, myself. I think that we are going to have a lot of oil and gas explorations in the Gulf of Alaska or Cook Inlet, and there are presently uncommitted gas resources in Southern Alaska. If the state builds a spur from an Alaskan highway pipeline to Cook Inlet, for example, it is much more likely that the gas would go north on that spur than south. It is conceivable the cost situations may change sufficiently to make the Inlet area or Prince William Sound an inviting area for industrial development, based on the gas. No study has yet indicated that that is in the offing. There is no evidence for it and there is no serious argument anywhere that there is a petrochemical or major gas using industry waiting to be established because of the availability of gas at tidewater in southern Alaska. Any sacrifice the state makes now, either in gas revenue or in Permanent Fund earnings, speculating on what is going to happen five years from now, is that thing that happens 25 years from now has got to be awfully big at compound interest to justify the sacrifices made now.

The gas on the North Slope probably should not come to tidewater in southern Alaska. There is very likely to be a big surplus of gas in southcentral Alaska, the Gulf of Alaska, lower Cook Inlet, out the chain, etc. and it is going to be extremely difficult to market.

The trans-Alaskan gas pipeline is an idea, it is a vision, it's very little else in terms of the prospect for further development. It is a big payroll boom and that's why it is so attractive. Do we want another big payroll, big construction boom for the difference between the El Paso and Alcan in terms of the payroll. How much are we to pay?

How much is it worth to pay to get gas directly to Glennallen. Wouldn't it be a lot cheaper to give them the money to haul propane in for free, or something like that? I know how much it is worth but a lot of this discussion takes it completely out of economic reality. It has become a religious thing and I don't know how much it takes.

GRUENING: Now that we are into religion, can we get back to Permanent Fund? Do you have any other questions?

RADER: I have a couple of others, if I could, Mr. Chairman. During the discussion of Permanent Fund, it has been brought up from time to time that Permanent Funds can be used as a vehicle. You touched on this during your discussion and I apologize for not having read your paper. I assure you I will. It has been suggested that the Permanent Fund be used as a vehicle to handle the transition of Alaska non-renewable resources to renewable resources and I assume inherent to that would be that we would take the Permanent Fund and use it to subsidize what would apparently be non-economic agruculatural products or fishing ventures perhaps on the Continental Shelf and the 200 mile limit or something else, I don't know. To use---I don't know really---I am not one of those who made that agrument. It was made that this fund could be used as a vehicle to get us from a non-recurring resource revenue to a recurring resource revenue. Do you really see that?

TUSSING: How long are we going to subsidize them and compare the cost of continuing subsidy to just how much income you could bring in by investing that money at the highest rate of return and using it to sustain normal state activity. I am no more sure than you are what the people who talk about this mean. I would like to see what kind of venture and what kind of subsidy is involved. Suppose the Permanent Fund contributes free half the money to establish a processing plant for bottom fish. Over long term the operating cost---or the revenue to cover the operating cost and the depreciation---are you going to just keep feeding in money from somewhere to keep that project going it it's not otherwise viable, and if you have to do that what do you want it for? Does this make the state's economy any less precarious than it was based mostly on oil? I don't quite understand the argument myself.

RADER: I don't either. I thought maybe...

TUSSING: Let me say, I have faith in the ability of the fish processing industry and of Alaska-based fisheries to grow and make enormous investment in the next two or three years or in the next five or ten years, and there is virtually nothing that can stop this aside from state and federal regulatory policy, but the pace and shape of that development is not going to be determined by the cost or availability of venture capital. That will be there if the projects can show that they are worthwhile. There may even be too much because there are a lot of Japanese and Korean companies who are writing down and writing off their previous investments in processing plants back home and who will want to get involved at almost a non-economic basis in Alaska industries and may want to get a foothold now and will invest at less than, you know, it thinks a prudent investor might hesitate at. That is true, we have another source of capital in the native corporations who have been doing that, too.

RADER: A different line of inquiry. Have you given any thought as to the governmental structure that you would recommend? You and I are both aware to some degree at least of our past, in the way we handled the past lending activities and whether they have been economic. I am like you. I have some question about the management ability of some of our agencies. Have you given any thought as to how the fund should be structured for an executive and legislative oversight but with a view towards insulation from legislative pressures and public pressures, etc.?

TUSSING: Not enough to spend time on my prejudices.

RADER: That concludes my question.

GRUENING: Thank you, Senator Rader. Are there any further questions of the committee? Representative Meekins.

MEEKINS: Dr. Tussing, you were talking about providing some loans for small and medium enterprises in the rural area and that private institutions don't provide the captial needs there. Is it your view that in order to do that that we would have to set up regional development banks or some sort of development banks and that that wouldn't be possible or preferable to work through the financial institutions?

TUSSING: Well, I think most investments in Alaska should be done with or through or in partnership with existing financial institutions. I haven't given a great deal of thought to how this would be structured, but I would see the regional development banks being formed in some sort of cooperation between the Permanent Fund and existing financial institutions and the regional corporations. For example, they might joint venture, which would be utilizing the services and get money from the existing financial institutions. Might guarantee them and sell bonds---have a correspondent relationship---there is just many ways of doing it and I simply haven't devoted a lot of thought to its structure. It will be a difficult problem. It is not an easy thing to work out.

GRUENING: On that line, Mr. Belden Daniels, who is our next witness, will give a little more thought to that. Are there any further questions from the committee? I want to thank you very much for a very thought provoking presentation. Thank you. I would like to call our next witness because I would like to wrap most of this up today. I think he is in the audience. Mr. Belden Daniels from Harvard University has submitted a very, I think very, comprehensive report and I would like to hear your initial comments, Belden. You have a resume here that looks pretty impressive. I know you are pretty modest and maybe you could summarize it for us.

DANIELS: Thank you, Clark. I am a lawyer, a former international banker. I teach development finance at Harvard and I am actively involved in putting development banks together in a number of places in Asia, Europe and in the United States. That provides me with a very good point of departure because I suppose that in the last 18 years of working in development banking and in the last 13 years or so in working specifically with regional and community economic development problems that I have read several hundred development banking acts and draft bills and I participated in drafting and having passed and funded a dozen or so myself.

I begin with a very strong feeling of genuine excitement about the quality of work which the State Investment Advisory Committee has already invested in this issue and which the consultants for the state, Price Waterhouse, White Weld and Bob Richards here in Alaska, have contributed. It is much easier for someone in my position to offer refinements and additions and clarifications on a draft which I think is essentially very sound. I am speaking specifically about House Bill 298 and I think somewhat improved version of that House Bill 300, which are the two that I have looked at in some detail.

I have about eight points, if I could kind of quickly go down them and make them fast, and then open it up to your discussion as much as possible. I guess I want to say one or two more preliminary things. I confess to being somewhat overwhelmed by both the potential size and scope of the Permanent Fund and also by the size and nature of the Alaskan economy in relation to your population base and I feel very cautious about wanting to be too quick in making judgments about the relevance of my own experience in many other parts of the world because, as Arlon Tussing has point out, you are faced with an absolutely unique situation. There are really no comparable situations in my experience in either Asia or Europe or in the United States which combine the particular concentration of extraordinary resources, capital and natural, in such a vast area with such a limited population. So I would like to reserve the ability to be somewhat tentative in---as an outsider in offering too much advice and council about how you should proceed here.

I do think that there are at least three major areas in which that experience is relevant to you and useful to you; that is, the world wide experience is relevant and useful to you, without presuming what your goals are. And they get, Senator Rader, to some of your questions.

One, I think there is a way that you can look at your problems or your opportunities---a great deal of learning with regard to structure that is worth your careful consideration and I am mindful that having read all of the minutes of the Advisory Committee and the reports of your previous consultants, that through Price Waterhouse and White Weld you have had a rather thorough consideration of lots of that international development banking experience.

In the third area that I would offer some comment on, related to Representative Meekins' question, is the specific applicability of regional and community development experience to some of the structural problems that you are facing. The title of my paper I believe in very strongly and that is that I would urge caution on all of you in several levels. One I think, it is very important for all of us to recognize the very real limit on the capacity of any state government to influence profoundly the course and direction of economic development within its boundaries and this is one of the areas which Arlon and I certainly share---one of the many areas in which we share a common kind of sense of caution.

Secondly, I think that all of us need to be extremely cautious in anticipating too much impact on the economic development of the state from the Permanent Fund. And, in my eight points that I would like to make, Clark, I think I can bring out the specifics of that in, I hope, at least quick conference. The punchline, of course, in suggesting this caution with regard to the role of the state in economic development and the role of Permanent Fund in economic development is that you have the opportunity of enormous scale, either to waste these tremendous capital resources that you have or to husband them very carefully, both in terms of the maintaining the value of the capital itself and invest in ways which will at least marginally contribute to the overall economic development of the state.

Point One: No development bank, no financial intermediary, can create any economic activity that isn't there in the first place. Development banks and any financial intermediary operate only on the supply side of the economic equation. If there is real economic activity for which there is not available capital, then the intervention of the Permanent Fund can affect that positively and can add economic value to the state. But if there isn't a market, if there aren't sufficient---if the costs of production are too high, the intervention of the Permanent Fund is not going to affect that at all. Specifically, it is my understanding that at the present time petrochemical industries is not viable on a world-wide basis. The cost of production of petrochemicals in Alaska are too high to be competitive on the world-wide market. Now that may change and then maybe things that will lower those real economic costs. But there is nothing that the Permanent Fund can do to intervene in order to lower the costs sufficiently to compete in the world-wide market. Now that is very, very important, I think, in terms of lots of thinking about the Permanent Fund.

That means, for instance, in terms of Point Number Two, that subsidies are not the issue. We have a very interesting case in point in Massachusetts right now where we have very rapidly growing, high technology companies, between $50 and $100 million in sales, that are between 20% and 40% profitable and growing, and growing at the rate of 20% to 40% a year, which have a great deal of difficulty accepting capital in either equity or debt form for their needs. But these companies could be financed on Master Charge, and I think that that is a critical idea. In fact, there may be circumstances where you want to increase the price of capital in the Permanent Fund because it discourages non-economic activity and you want to discourage all of the dogs that will be attracted to the Permanent Fund if there is subsidy available. The issue is the availability of capital.

Point Number Three. The general fund is far more important---and I am saying this in emphasis to Arlon's point---the general fund is far more important in terms of its impact on the overall economic development of the state than the Permanent Fund. I devote time to this in my paper, and I don't want to repeat any of that now, but the issue of expenditure policy, tax policy and regulatory policy will more profoundly affect economic development than the Permanent Fund. But the key punchline in Point Number Three is that you have got to operate your expenditure policy, your tax policy, your regulatory policy, and the use of the capital resources of the Permanent Fund as part of a coherent economic development effort in the state. If you don't the opportunities for sound investment on the part of the Permanent Fund will be less, the jeopardy of Permanent Fund investments in the state will be greater, and the likelihood of your general expenditure policy through the general fund and your investment policy operating against each other, I think, are very great. I suggest that there is extraordinary opportunity right now for the State of Alaska to think about a coherent overall economic development approach that recognizes the limits of all of its policies, individually and collectively, to affect the economic development of the state, but still is operated in combination, will have a much greater impact than operated separately. Just a simple illustration.. A couple of the issues that I have had the pleasure of talking about the last couple of days is from some of the native corporation areas and with---in specific projects, one in the Aleutians, one in the Kotzebue area. You can't begin to talk about a significant fisheries project that is going to be sound unless you get the concrete in there for the pier first. And so, obviously, the infrastructure decision made through general fund investments has got to be made side-by-side with the Permanent Fund.

Point Number Four. The private market needs to be used first in terms of solving both market and capital issues within the state, and all of your planning and development in terms of any financial intermediary specifically that might be set up within it have got to be planned in collaboration with the private market and implemented in collaboration with them. This is essential if you are to husband your resources properly, both in terms of lowering the risk in which state funds are invested, and also lowering the cost. And I would suggest that ---and I will cite some specifics before we finish---that there are lots of opportunities for that kind of collaboration which are mutually attractive to the market sites, to the population of Alaska, and to the state government. And therefore, specifically, in the case of regional development banking subsidiaries of the Permanent Fund to deal with some of the problems of capital availability in the regions, I strongly support Arlon's position that they should be a collaboration between the native corporations, between the private market place, and between the Permanent Fund. I will give a few specific cases in a moment. Without knowing in great detail the operations of the present revolving loan funds, what little I know confirms the experience in many other states and many other places that those funds which are in collaboration with the marketplace have a portfolio which is not only financially of better quality but in terms of the economic impact has a greater impact within the state.

Point Number Five. What are the potential areas for use of the Permanent Fund and how might the Permanent Fund be organized in order to deal with them? I think there are four that deserve very careful consideration by you and I will try to highlight those points which are either extending on a point that Arlon has made or in addition to them. First of all, in terms of large scale economic activity in the state, the very efficiency and consolidation which is taking place in money and capital markets on a worldwide basis means that there is capital available for those large enterprises and I think you should ask very carefully what the market imperfection is, either in terms of the private market or financial market, which would lead you to be asked to undertake either an equity investment in or a debt loan to or specifically a debt guarantee of a large activity which you should presume can be handled by the marketplace. Now, I would like to introduce another issue with regard to large scale enterprise. At the present time large scale enterprises in Alaska are primarily being developed by resources from outside Alaska and you may want to ask yourself the question whether or not there is a reason to intervene in order not to change the underlying economic viability of the project, which is presumed to be sound, but to change the ownership, both in terms of who is bearing the risk and who is bearing the reward for that particular large scale undertaking. I am going to suggest a number of points a couple of models around the world which your---which the previous consultants of the state were not asked to look at because they were asked to look primarily at international development banking experience. There is very close to you a model that deserves your careful consideration in terms of this issue of shifting ownership for very large scale enterprises and it is the Canada Development Corporation.

Canada Development Corporation was created in 1971, I might note after a 10 year debate. I don't mean to suggest that this process may go on for a while, but I am fascinated that it did take 10 years to do it in Canada. It was created with an initial public investment by the federal government of Canada of a quarter of a billion dollars. Three years later it was able to have the largest public offering in the history of Canada, $150 million public offering, primarily by small individuals in Canada, primarily because of the soundness of the investments which it had made. It now has total assets in less than a 6 year period of over a billion dollars and is producing a significant return on investments and has repurchased a number of rather large corporations which were originally under foreign ownership, primarily American ownership. Now, it is a mixed success, depending on the standards that one uses. But it is one alternative form of use of the Permanent Fund in which you would be operating on a market basis but with a somewhat different public purpose.

Second, in terms of uses. There are on a world-wide basis---there are problems of the availability of intermediate long term capital for small and medium size businesses generally and particularly in remote areas. Now it is very important to note that this is not an Alaskan problem. This is a world-wide problem. And the question then that you have to ask yourself is whether or not you have an economy that is in some way particularly dependent on those kinds of enterprises for economic growth and therefore there is warranted on the part of you and the Permanent Fund some intervention. In Massachusetts, for instance, we are a particularly dependent economy on small and medium size businesses. We are also particularly dependent on the creation of new high value added and high technology companies, which, as I mentioned earlier, have difficulty of access to the capital market. Therefore, we have created a series of new development banks in Massachusetts, two wholly privately owned and several that have a mixed and private capital in order to deal with that problem. Very critical point. That activity must be undertaken, planned and implemented in collaboration with your existing commercial banks and thrift institutions both federally and state chartered in order to create a mode of investment that is sound, from a risk standpoint, spreads the cost and builds those institutions more deeply into the economy on a sounder basis.

There are a number of models that warrant your careful consideration. One, again, is the Connecticut Development Authority, which in my judgment is the soundest of the intermediate and longer term joint ventures between public capital and private capital. Every European nation, every Canadian province, almost every state in the lower 48, has this kind of intermediary. This one just happens to be the best of them. OK. Third. There is a particular problem that deserves your attention in terms of support for regional and small community economic development and I would say on the basis of my experience in Appalacia, my experience in New England, and my experience with regional economic development efforts in Europe, that without knowing precisely the nature of your own economic situation in the---outside of the major cities, that this is a very serious problem, as Arlon has already noted, and that---but I think the extraordinary thing is you have a resource that does not exist in any other state, and that is the existence of the native corporations.

What I think is worth your serious consideration is the regionalization of parts of the Permanent Fund to deal on a joint venture basis with the native corporations. And I would like to note that this is the one case in which I think, underlined many, many times, that there may well be a sound economic and financial reason for the Permanent Fund to take a significantly lower rate of return, and that is this: The native corporations have a very high need to produce at the highest rate of return at the lowest risk on a worldwide basis as they can in order to husband their own resources and protect their stockholders. They are therefore naturally looking to investment opportunities in the Anchorage area, Fairbanks area and outside the state, as they should, I think---because of their opportunity costs. I think that they are essential to the sound investment in their region. It is not sound for them to have all of their economic eggs in their local basket, or even in the basket of Alaska as a whole, but that development will only take place if in fact the Permanent Fund is willing to compensate for their opportunity costs. This will require much more careful consideration and analysis, but I think in principle the idea is sound. I just, in fact, had the opportunity to sit down and talk in more specific terms about a specific project in Kotzebue where I think this is true. The project will be financed but it may well not be financed as soundly as is good for the project in order to have the shopping mall to get started in Kotzebue.

Once again, there are very good models for your consideration, some new and some old, in terms of this kind of collaboration. One set that deserves your further attention is the British Columbia Central Credit Union, which has had an enormous impact on regional and small scale community development in an economy which I would presume is not radically different from the Alaskan economy in terms of its overall construction, political dimension and demographic dimension and underlying economy. Related to that is an extraordinary institution in Germany called the DG Bank, known as the largest bank in the world, starting from small scale community development, now investment opportunities on a worldwide basis. A new institution in Massachusetts not yet operational but I think conceptionally very sound, the Community Development Finance Corporation is an institution that I think deserves consideration by you in the planning. I might note a small kind of example of refinement I would suggest for consideration in HB300, and I know this---I think it is a mistake in the community development of units of the Permanent Fund to limit the form of investment to only debt and debt guarantee. I think equity is essential for community and regional economic development and the Permanent Fund should have the opportunity of making those kinds of equity investments on a joint venture basis in a minority position with the native corporations in the kind of case that Leo and I just had an opportunity to talk about.

Fourth and finally, in terms of uses of infrastructure investments. Be wary, be cautions. There is an enormous body of experience on a worldwide basis of public investments made in anticipation of private market investments following and those public investments are lying in the fields. Now, where there is the opportunity for a market investment like a fishery, like a fish processing plant and in the Aleutians, but an infrastructure investment needs to be made first, then we have---in order to realize the private investment---then there is a very great need for collaboration between general fund infrastructure investments and Permanent Fund income producing investments.

Point Six. Without having access to either private market projections for the economy or the university's projection, or the government's projection, under no circumstances in my judgment will there by the capabilities for absorbing substantial amounts of Permanent Fund resources in any of the above four categories over the foreseeable future. And it is interesting that I arrived at the need to make private market investments, not from the standpoint of security, not from the standpoint of evening out the long term ups and downs in the cycle of state government revenue, but from the standpoint of development banking. And I very much support the language of 298 and 300, which say no less than 40% in terms of investment grade secruity and---but no more than 30% in community development, or no more than 30% in productive private enterprise

Now, Point Seven I have already covered and that is good. There are other models in addition to the ones which you asked the original consultants to look at that are worthy of your consideration. There is no need for any kind of activity that you might undertake with the Permanent Fund to reinvent the wheel. Somebody has been there first and made plenty of mistakes and finally of all there were times creative models ---models are available for your use and should be used.

Eight. Looking at the structure of the development bank and is proposed in 298 and 300. A general proposition first, very important. Some members of the committee, I think, will be a little sick of hearing me stress this. There is one great strength in a development bank and one great weakness. The great art in design is to maximize that strength and minimize the weakness. The strength is that it is the most efficient mechanism for making a public capital investment that is sensitive to market conditions in order to contribute to economic development. It beats setting up a bureaucratically administered fund in terms of both equity and efficiency by a very long distance, and it beats tax expenditures and tax incentive by a very long distance, which are the two other principal forms of public investment. But the price that is paid is the price of accountability to a public purpose, both to the executive and to the legislature. There is a history of development banks being lost from public control. Now, I want to re-emphasize that I think the basic plan of 298 and 300 is very sound. I think that in terms of both counsel and the decisions of the investment advisory committee and the drafts that have come from the executive and legislature are essentially sound in detail, as well as concept. There are 30 or 40 pages in my paper that literally go through the draft line by line, comment on them, the meanings of the phrases and any more detailed technical issues that I think deserve some consideration.

What I think deserves your consideration is how to insure that the resources of the Permanent Fund are planned and implemented in conjunction with the general fund for purposes of economic development, not for purposes of market security investments, investments for purposes of economic development, that insure that the planning is consistent, but that the investment decision-making of the Permanent Fund is in no way compromised. The whole idea of creating the Permanent Fund is in fact to remove---one of the major ideas as I understand it---is to remove revenue from the expenditures of state government. And if you think it is done in Alaska, you should see it in Massachusetts. The expenditures always rise to meet revenue whether you need them or not.

Forcing an investment pace which is not there is another problem. I have lived through disastrous efforts of the federal government in the '50s to try and jam money into ghettos at a rate that could not be absorbed. If you want to see economy in people's lives destroyed, that is a good way to do it. So the issue here is to make sure that not only is this avoided but that the investment pace---that the legislature and executive do not insist on an investment pace which will create unwise investments that will only come back to be of much greater problems in the end. Now, I am going to take advantage of the fact that I am an outsider, unfamiliar with the custom and history of executive and legislative arrangement in Alaska and not propose a specific solution to that problem. I think my function in that case is better served by reacting as counsel to ones that fit the genius of the Alaskan situation, based on the experience in many other settings outside of Alaska. But I guess my summary feeling is that there is a---that a very fine start has been made through the drafting of 298 and 300, through the kinds of sensitivities I have been hearing from private market people, people in the executive and legislature, people in native corporations over the last couple of days. And the issue is to build on that excellent start in a process which continues to collaboratively involve the private market, the executive, the legislature and the users of---services in the further refinement and in the implementation of the plan.

GRUENING: Thank you, Dr. Daniels. Are there any questions from the committee? I have one, if no one else does, to start with. Earlier, Arlon testified he saw the range of possible investments in the magnitude of $40 or $50 million range and you are aware, Dr. Daniels, of course, that the two bills that you mentioned---298 and 300---set aside 40% of the incoming Permanent Fund revenue to kind of savings, which wouldn't be used for that kind of investment in the state development banking and investment in the state. Given the fact that its magnitude is somewhat smaller than you might have guessed earlier, would you suggest that that percentage in investments---let's say not a development banking type in the state---be larger. In other words, that 40% ought to be raised?

DANIELS: Well, I would have several observations. One, if I understand Arlon correctly and understand the paper where he talks about this in somewhat detail, that's a hunch on his part subject to more careful econometric modeling on the part of the university, further grants that might be made by administration for consultant assistance in that regard. I think that one of the tasks that is before the committee is to take a very careful look at kinds of projects like the ones that Representative Schaeffer and I were talking about earlier, in order to see totally what is out there. You also do need to do some very careful modeling and you need some computing models so you get some different judgments because, as you know, you are still very much in the dark as to how to use some of these econometric models. So that needs to be done before anybody can start making some more rigorous hunches.

Two. Having been through this for 18 years, and having just been through it in Massachusetts with six new development banks, in the end no way to know until you get out there. Because you are operating on the supply side, you take your best anecdotal information and you take the best econometric information, and on the basis of that you make a judgment. Then you create a mechanism which will grow according to real demand being out there. I want to give you an example. Massachusetts has probably the best housing development agency in the country---probably the world---in terms of the state housing finance agent. When that institution was first created in 1968---that is a very short time ago---that institution was created with an initial $50 million. That institution less than ten years later is a $2 billion institution because the demand was out there and it grew to meet the demand. The initial ceiling was set and the demand appeared to be greater than initially anticipated. The control was a ceiling of indebtedness which it could incur and the legislature consistently raised the ceiling as the demand was demonstrated.

GRUENING: Do you see a possible parallel in initially setting the ceiling for the development corporation that we may establish in either 298 or 300 below that that would come into the Permanent Fund from the 25% mandatory contribution?

DANIELS: Well, I would make one other observation. You already have a ceiling.

GRUENING: Well, no. You have one in the constitution. You have another one from a draft standpoint. You already have a ceiling in 298 and 300.

DANIELS: That's right. A ceiling on two categories of presumably higher risk investments in which all of the balance must go into investment securities. I think I want to be cautious at this point in suggesting that it is possible that the legislature could set lower ceilings and then subject to proven demand to raise them. I think I would want to suggest that this is a possibility which others have tried worthy of your consideration. I don't think I want to make a judgment at this early stage in the game if that is precisely the rule that they follow. I would like to note, however though, that with regard to investment grade security, it is my understanding in reading the legislative history and reading the minutes of the committee, in reading the work that has been done today, that the intention is to invest in the full range of marketable securities that are available in order to maximize return at a prudent level of risk, and that what is at issue here is a form of investment that is considerably beyond characteristic short term secured placement of debt on the part of the state with idle cash flow. I also think it is important to realize that the Permanent Fund is not only potentially one of the largest development banks in the world, it will be a very large investment bank by world-wide standards operating on a world-wide basis in terms of this portfolio investment and has got to have the most able management that money can buy. One of the reasons again, from an efficiency standpoint, that independence for investment decisions has got to be protected.

GRUENING: Questions?

MEEKINS: You have down in your paper and re-emphasized today it isn't enough for the Permanent Fund to plan what we would like to do with the Permanent Fund, but it must be coordinated with the expenditures of the general fund for a number of reasons and that brings up a question related to that, that the planning course in order to do any kind of planning or thinking needs to have information and judgment about what's going to happen in the future or what is happening. You have to take inventory of the current situation. It seems to me that---I have been thinking about that after reading your paper and others that one of the benefits of the Permanent

Fund, even though the major impact is going to be what we do with the general fund, one of the real benefits of the Permanent Fund provides a kind of catalyst or reason to get organized and that is what we are doing now. I am wondering how you feel---what kind of---if you thought about what kind of things we need to do in order to start gathering information. I know that is necessary, but I can't really perceive what steps we take in order to have information that we can make decisions upon.

DANIELS: I really appreciate that question because it gives me an opportunity to say that we have this unfortunate tendency in the United States to think that planning somehow is useless in America---and yet what I would like you to do, and I think you precisely hit the nail on the head. The Permanene Fund creates an opportunity to begin to think about Alaska as a public enterprise, and what I am suggesting for you is simply that you begin to adopt as a state the same standards of planning that any multi-national corporation takes for granted as a mechanism for marshalling and husbanding your assets in order to produce larger return on those assets.

I do think that there is a way of thinking about the general fund and the Permanent Fund, in which the Permanent Fund is really the retained earnings of the people of Alaska. There is the difference on an annual basis between your revenue and your expenditures. Now, most states live by the hand-to-mouth business where they spend every penny of today's expenditures to meet whatever revenue they have in hand without any thought toward investing those resources in order to create a sounder longer term public enterprise. I never thought about that idea before until I had put before me the kind of awesomeness of the Permanent Fund itself.

The issue every year is to expend and invest on a current and long term basis the expenditure of the state as a whole in order to, number one, produce a higher annual net earning which will go into the Permanent Fund, and in order to produce an increasing growing revenue base. Now, without going into all the details of it, I think we do need five year planning, or if that is too dangerous a phrase, pick three or seven, and that you need to begin to project both for the general fund and for the Permanent Fund expected revenue, levels and qualities of expenditures.

I do want to make one disagreement which I will illustrate in a moment. In order to be sure that you are husbanding all of those resources and maximizing them, you are going to make mistakes. You know, we do create Edsels in this world. And---but you aren't going to make as many as you will if you just go willy-nilly. Now, I do want to make one, I think, distinction---and I don't know whether Arlon is still here to respond. Well, I want him to. I will get him in a bar or something afterwards, but we are unfortunately still living in the never-never land of dear Keynes who told us that every public expenditure was a good as every other public expenditure and it ain't true and all you have to do is look at England and Massachusetts as two terrible cases in point if you want to see that it is not true. The Permanent Fund must also require that you increase the quality and productivity of your general fund expenditures so that they are made only in terms of the increase of return that they are going to produce. I further suggest in the paper that you must begin to project, not only the financial soundness of Permanent Fund investments, but the economic impact of them, and then as part of this planning process you must measure---you must audit the economic impact as well as the financial impact to determine whether or not those investors did in fact live up to their economic projections, as well as their financial projections. That is part of the planning process, too. In that regard I think 300 is better than 298 in one specific where 300 requires that annually the executive and the Permanent Fund management account to the legislature for what has been invested and report in terms of what future plans are.

RODEY: Let me shorten Russ's question down a bit. What is the best measure of the amount of additional capital that our economy can absorb and where do we go in the parameters of the desirable amount of capital?

DANIELS: That question is a little different than I thought. I can't give you the answer you want. The measures that you want are the specific fiscal measures of return to the state. If you make an investment of state capital, if the state takes some of its revenue and invests them in the Permanent Fund, then the returns for the state is not only the return to the Permanent Fund itself of the soundness of that investment, but the returns in tax dollars to the state itself. We are now putting on the new development banks in Massashusetts a two track accounting. One that accounts for the financial soundness of the enterprise and one that accounts for the reduction in social overhead costs and the increase in tax revenues created.

Now, we are very much at an early stage, all of us in the world, in being sharp in that kind of analysis and projection, and even the cost benefit analysis of the World Bank, the InterAmerican Development Bank, don't apply because for better or worse the State of Alaska does not have its own currency and does not---and so you cannot be as rigorous in the attribution of the economic benefits based on your investments. We have to factor that down. The process is two points. One, I can't say what the quantitative answer is, but I can say that it is the use of some of these techniques of measurement that are crude at this point, but I think over the next ten years are going to become much more refined and you should be a part of that refining process.

Obviously, as public trustees, what we would like to do and must do is to draw a curve and we want to know the point at which the capital going into market can't be absorbed in an acceptable manner, whatever the acceptable manner is.

That starts by not subsidizing. That starts by the fact that those investments that are going to be made are going to be made in terms of a market return and that it's only in terms of infrastructure investments where the subsidy already, according to 298 and 300, is borne by the general fund and not by the Permanent Fund. It's really a capital subsidy and a proper one because the external benefits again returns to the state. And possibly with the one exception---the one that I introduced---the possibility of differential costs for joint ventures with the native corporations for essentially sound projects in order to correct for their opportunity costs, which rightly encourages them to invest outside of the region, not inside. Are we together or not?

RODEY: One last point. Are there a number of models we can look to for the limited purpose of development banking in determining what capital or proper capital absorption is in a market?

DANIELS: Well, analysis as I understand it right now is being proposed to be done with the executive---with consultant help, using models which they already have available to them. I think that is absolutely essential to your purpose. I think that should then be corroborated by anecdotal evidence that you gather and I think it further then should be tested by putting a series of assumptions into the several models that are available to you. I was out of the room when Arlon was referring to the man in the arctic model, but I am aware of it and it seems to me that it is a tool, that is---you want to take the analysis that is done by the treasury and perhaps there is some other data that is now available and I am not yet aware of, and then you want to begin to make some assumptions in terms of investment modes through your econometric models and begin to see.

GRUENING: Representative Miles had a question.

MILES: Thank you, Mr. Chairman. Dr. Daniels, I missed a point that you made early in your presentatiaon when you were speaking of the potential areas of use of the Permanent Fund in the regional small community development entities. We have been hearing quite a bit this afternoon about no subsidization and if it is an economically advisable program private capital will generally come in and take care of the project. But you indicated, and I didn't follow from Point A to Point B that in the small community or regional development area we could take a lower rate of return. Can you tie those back in?

DANIELS: Yeah, the issue is something we call opportunity. First of all, I want to make one thing very clear,that any promenance that we have in the money and capital markets today on a world-wide basis are precisely because of the increase in efficiency of that market and its consolidation of resources and the problem that is developing is that there are left behind lots of relatively small undertakings. Now some of these you have got to realize can get very big. We literally do have companies in the $100 to $150 million range in Massachusetts that cannot at the present time, because of the structure of the marketplace, get adequate equity and long term debts. Those are pretty good sized.

What happens is---is that the opportunity for substantial return at a lower risk are available to these increasingly large financial intermediaries on a world-wide basis that do not make it worth their while to take the lower return through increased cost and possibly through increased risk. The issue here---and I don't want to get too technical---the issue is to create mechanism in collaboration with the private financial intermediaries which reduce information costs and which reduce transaction costs. I give you specific case in point. John Hancock Life Insurance Company today invests $1 billion a year. Twenty-two people do that. It is not worth John Hancock's while to consider any investment smaller than about $20 million in a firm that is smaller than about $100 million. The cost of an office and the attendant risk, even though these are otherwise sound investments, just don't warrant giving the opportunity for placing their funds.

MILES: So they wipe out everything...

DANIELS: That's right.

MILES: ...under $100 million...

DANIELS: Absolutely.

MILES: They don't even...

DANIELS: Won't look at it. John Hancock last year made one investment in one company below $100 million. Now, the same is true of the native corporations. Their task is to maximize their return and their opportunity for doing that are greater outside of the region than inside the region. Now because of the enormous public benefit to reducing welfare costs and reducing unemployment insurance costs---public benefits, forget it, state benefits --- right to the treasury of the state to lower these annual expenditures and to increase tax returns. I am saying, I feel on a hunch, that there are lots of opportunities for collaboration with the native corporations in which the return to the state, a fiscal return to the state, in specific dollar benefits warrant a reduction in return through the Permanent Fund and in collaboration with the native corporations. Now further with your own commercial banks and savings banks there are also mechanisms for making---for dealing with their opportunity costs in terms of extending the terms of financing, in terms of reducing their costs.

I will give you a case in point. We had an analysis in Massachusetts of our fishing fleet in light of the 200 mile limit. In fact, we just considered what are all the issues that we need to undertake in terms of a comprehensive approach on the---with regard to the state to try and see that Massachusetts which has a situation very similar to yours is able to really take advantage of the 200 mile limit. We found that the average life of fishing vessels in Massachusetts is 29 years and 7 months. We further found---you can imagine that there is some real dillies out there. On the other hand, we found that the commercial banks and even the thrift institutions were not making loans beyond ten years. They were doing that for sound reasons. The issue is for us to come up with an insurance program operated through a development bank so that it is operated on a sound basis which will make it attractive for those banks to extend their term and also make it possible for them to lower their equity requirements from 25% to 10% in order to make it more possible for fishermen to be able to buy their boats and not, you know, be so totally depending on piling stuff up on the---until they could actually go out and get one. Now the point I want to make is that is every instance John Hancock is acting reasonably, your local commercial and savings banks in Anchorage or Fairbanks are acting reasonably, the native corporation is acting reasonably. You also can act reasonably in terms of your return on investment to the state by working in collaboration with them to create a joint venture situation that benefits you both.

GRUENING: Further questions of Dr. Daniels?

MEEKINS: Thank you, Mr. Chairman. In regard to infrastructure investment, it seems to me that some of those---it goes back to the idea in my mind of fighting with the general fund. It seems to me that a lot or at least some infrastructure invesments, the ones that come to my mind, would likely be good candidates for direct appropriation from the general fund, those that have anything to do with transportation costs being lowered or dock facilities or something like that. And it would seem then that you would---in some cases it would be better to take money out of the Permanent Fund and invest it in those things and then take the general fund money for the return or just a direct appropriation of the general fund, or would it make any difference?

DANIELS: OK, well, we Americans do some other funny things, and one of the things that we do is we finance long term physical assets---50% of all long term physical assets are financed on a current account basis by government. You don't know, if one were a business one would never think of doing something like that. The point of using the Permanent Fund with regard to infrastructure financing is to take an actuarial view of long term physical assets and say that it is not necessary to pay for 100% of the cost of a dock facility or an airport or a road in year one, if in fact the useful life of that investment is going to be spread out over a period of time, the economic benefit, the tax benefit coming from it, etc. Not only is the cost going to be emphasized over a life, but the returns on the investment are going to appreciate to the state over the term of life. Now what I am suggesting is that I intuitively trust a development bank to make a sound assessment of the cost of that physical asset, you know to control the cost of building the airport and to police the maintenance of it. It is just a different way of thinking, different way of operating, and you will create a more efficient asset that will be better maintained if the management of that financing--- and it will be financed on a more sound basis if the management of that has gone through the Permanent Fund.

Now what I am saying is that if there is any cost difference between the realistic return on the investment, if in fact it is something that is totally external like a road, and you don't want to put toll bridges up, or for instance you do want to assess part of the cost of that---maybe you do want to assess to the fishing venture part of the cost of that user charge for making the public investment to the extent that there is a return on the investment that is insurance, then that comes back to the Permanent Fund to the extent that it costs $2 million and you are only going to get an internal return over 15 years of $1.3, then the general fund has to pick up the difference of $700,000, but I suggest that is more efficient than the general fund automatically going out and appropriating a million dollars in a rich year for a project which, because you are not paying attention to it, ends up costing $3 million, which then is not going to be adequately maintained because nobody is minding the store.

MEEKINS: What about a case of an infrastructure investment that has completely external rate of return? For instance, a road where you have one particular group of people, but you don't want to charge a toll because it limits the amount of use and therefore theoretically the total benefit to the public is reduced because some people won't use it if it has that cost. If that is the case you won't have any revenue produced from it. Or very, very little. When you think of efficiency in doing the Permanent Fund, would you think that the total return should be taken up by the general fund or...

DANIELS: Yeah, but you might finance it on a---I mean the Permanent Fund must---I was about to say, you know, hopefully---the Permanent Fund must be managed and will be managed, or else we are all gone, according to the high standards of a world-wide financial intermediary.

On that basis the Permanent Fund---this gives me an opportunity to make another critical point---don't think about the annual paid-in net retained earning as being the Permanent Fund. That is only the equity capital base of the Permanent Fund. Permanent Fund, if it is soundly managed, like any good development bank, will have the capability of accessing world-wide money and capital market in terms of its paper and the British Columbia Development Authority involved in New York, London, Paris; the British Columbia Central Credit Union that I referred to borrowed in world-wide capital market to support a dock that are in little villages in British

Columbia that no financier in London has any confidence in. But they had confidence in the British Columbia Federal Credit Union or in the British Columbia Development Authority. One good thing, it may well be much more effective for you to finance that airport by accessing international capital market and spreading the cost over a number of years. So you have to look at the expenditure side separate from the revenue side.

MEEKINS: Are you suggesting that that kind of borrowing by the Permanent Fund would be at a lower rate than, say, we can get general obligations bonds for?

DANIELS: It may well be. That depends at various times on the state of the municipal bond market. The municipal bond market is cheaper but it is a very inefficient market and it may not always be the most---it may be at certain times that it is cheaper to borrow on a world bond basis.

MEEKINS: It must be the state's general obligation bonds were more expensive so to speak---why would you bother to borrow through the infrastructure investments? Why would you want to borrow through the Permanent...?

DANIELS: Well, there are other considerations, and that is that the---to the extent that that is an obligation of the Permanent Fund---it is not a part of the indebtedness of the state and frees the indebtedness for other purposes. I don't know the specific structure of your state bonded indebtedness. To my understanding, it is relatively high on per captia.

MEEKINS: Yeah. Usually like these corporations have been set up are viewed anyway by the bond market as being part of the indebtedness, even though you say this is not a...

DANIELS: But the Permanent Fund is a somewhat different creature. It has got, eventually, $1-$2 billion worth of equity standing behind that bond just in and of itself. Why look to the state when you got that kind of a resource standing behind it? The point is that we want to separate out the decision as to whether or not to use the Permanent Fund. We want to look at the expenditure side with one set of eyes and the revenue side with the other set of eyes. It may be efficient to have it managed by the Permanent Fund on the expenditure side but financed through the general obligation bond market. It may be efficient to have it managed and financed by the Permanent Fund. It may be efficient on the revenue side to account for user charges which would come back to the Permanent Fund and make up the difference through the general fund, or it may be efficient to finance it all through the general fund. I mean I can even envision, and this gets a little speculative for this type of discussion, but you know these facts between the Permanent Fund and the state, where financing constructed by Permanent Fund and the payment from the state is on annual revenues as a user charge by the state as a whole.

GRUENING: Further questions from the committee? He raises a thousand very important, very interesting questions.

GARDINER: I have got so many notes here that I can start with Point Number One.

GRUENING: I hope Dr. Daniels might be available tomorrow and in the future for that matter---that is something we need to discuss. Feel free to put your question in writing.

GARDINER: I appreciate that.

GRUENING: I just have one question. You mentioned something that you may want to follow up later. You mentioned regionalization of the Permanent Fund. What do you mean by that? In what way would it be regionalized?

DANIELS: OK, let me again---and I am kind of looking at Jim Edenso when I say this. In my view, the essential structure of 298 or 300 is very sound for a development bank, subject to specific comments and criticisms that are made in this paper, in which I simply raised further questions. I would suggest that both functionally and geographically consideration be given to some differentiation in terms of task. And if I may take the opportunity to speak for a minute on the functional side before the geographic, because I think they are related. The private market is very wise in separating out its sources and uses of funds, its risks, its management, according to different kinds of tasks. You know, we don't ask thrift institutions to be short term inventory and working capital commercial banks. We don't ask either of them to be venture capitalists because the risks are very different, the sources and uses of funds are very different and the kinds of people who are good at it are very different. My own experience, particularly in the United States in terms of development banking, is that it is wiser to separate out those functional operations as subsidiaries of an umbrella development bank, and I would suggest for consideration the possibility of the Permanent Fund as proposed in 298 or 300 actually having some operational subsidiaries who deal in venture capital in intermediate and longer term debt financing, infrastructure financing, etc., something we just recently did in Massachusetts.

Geographically, we have a world-wide experience. This is true in terms of international development banking, it is true in England, France, India, you name it, that if you are talking about a huge geographic area where the problems are different, the people are different, and the ability to access risk is different, it is wise to have your capital gathering capability and your kind of centralized technical support capability at the center, but to decentralize risk assessment--- I don't know Alaska. I mean, as I said earlier today when I was kind of out in the suburb, the furthest end of the Bush that I have been. I want to be careful. I don't know enough about Alaska to say that your distance is so large, your differences are so great, that it is necessarily important to do that. But my hunch is, it is, and that ~~you would be wiser~~ to have a series of regional subsidiaries of the Permanent Fund as designed in 300 that would operate in different parts of the country under very strong direction from central-management in terms of their goal, you know, in terms of their direction and what they do, but not on a day-to-day basis.

GRUENING: OK, it is getting late, but we have other people. I would like to get the feeling of all the members here as to what they want to do. I want to wrap this thing up by early tomorrow and we could go later tonight or we could quit now. What is the general consensus of the committee?

Anyone want to go an additional half an hour? I think we could pick up a report. The next item would be a report from Jim Edenso on where the Permanent Funds are invested presently. Does anyone have any druthers on that?

RODEY: I have to leave personally, but what was your plan for tomorrow?

GRUENING: Start at 9:00 and wrap up about 11:00 or 11:30. I want to ask Mr. Edenso, Jim is it possible---you will be here tomorrow for that?

EDENSO: Yes.

GRUENING: OK.

GARDINER: What are your other witnesses for tomorrow?

GRUENING: We have Mr. Edenso from the treasury and Dick Haggart will be giving us some revenue projections, both short term and long term, and then we will get into asking what the committee members want to do on following up some of the big questions that have been raised today. We did an issue paper that we want to send out to the people who are interested in the issue and would read the issue paper, and solicit responses and discuss the rest of the program. We may want to work out some sort of joint effort on following up some of these questions. I want to thank Dr. Daniels for a very enlightening presentation. Anything further? We will stand in adjournment until 9:00 tomorrow.

16?

COMMITTEE MEETING
Anchorage Court House

July 1977
Page 1

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Russ Meekins, Bill Miles, members.

Mr. Dick Haggart presented long- and short-term revenue projections (July 7 and July 14). He also spoke on the tariff.

Mr. Jim Edenso gave a report on investment of permanent fund. At this time it is in ~~access~~ excess of $4 million. There are treasury notes invested in $3 million plus and the savings account has $928,259.21.

There was a discussion and suggestions on brochure. A wide distribution and summary of two reports were suggested. Committee members were advised to bring comments suggestions, and changes to the staff's attention the first of the week so the booklet can be sent in to be printed.

Mr. Terry Gardiner gave a short account of renewable resource development.

The budget's allocation for consultants' fees was discussed. When a contract is proposed, it will be circulated to members of the committee.

The budget will be discussed in greater detail at the next meeting.

Tentative meeting schedule was approved. It was suggested and agreed to that members send monthly budget reports.

Mr. Jim Edenso discussed the A. D. Little contract. Any concerns regarding this contract, let him know and he'll revise it.