SCOMM

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ALASKA

Revenue Journal

Department of Revenue

Vol. 1 No. 2

October, 1976

The estimates included herein are based on a preliminary analysis. They are subject to modification based on changing expectations of future economic conditions.

Jay S. Hammond, Governor
Sterling Gallagher, Commissioner
Vincent Wright, Research Chief

Permanent Fund Decision Nears

This issue of the Revenue Journal is devoted to the Permanent Fund concept that Alaska's electorate will decide on in November of this year. The goal of the fund is to invest revenues received from the State's non-renewable resource areas so as to provide for the economic and social well-being of Alaska's future generations.

This fund is important in that the money involved will have a significant impact on the State's populace if invested properly.

The following synopsis is a presentation of ideas inherent in the Permanent Fund concept. It is hoped that such ideas will be scrutinized, discussed, and improved upon by the voter.

Constitutional Amendment

The Second Session of the Ninth State Legislature overwhelmingly approved House Joint Resolution No. 39 calling for a Constitutional Amendment to establish the Alaska Permanent Fund.

The reason for the Amendment is due to the language in Article IX, Section 7 of the State Constitution which explicitly prohibits the dedication of proceeds from taxes or licenses for any special purpose except in the case of joint federal/state participation programs.

The Resolution specifically provides for the dedication of at least 25% of

> "...all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State..."

to be channeled into income producing investments. The earnings from such investments are to be deposited in the general fund unless otherwise provided by law.

The amendment will either be approved or disapproved by the voters in the November, 1976 election.

The letter of intent which the Governor sent along with the amendment to the Speaker of the House revealed the following points:

1) The permanent fund would not include proceeds from petroleum exploration, production, and property taxes as listed under AS 43.56.
2) The fund would exclude receipts from petroleum

reserves and ad valorem taxes as indicated under AS 43.58.

3) The monies dedicated to the fund would be used only for income producing investments.

4) The fund could not be utilized to finance the general operating expenditures or general capital improvements of the State.

Organization

The organizational structure established to control the fund will be one of the key factors in determining its success or failure.

The question of prime importance then will be how will such an organization be established? Although this question is currently being addressed by the Electorate, Legislature, and Administration, very little can be said at this time about the probable outcome of debate.

It may be pointed out, however, that any proposed system should encompass characteristics which insure an effective organizational structure. The system should be free of overt pressures from special interest groups, provide for obtaining the best available management leadership, and make use of efficient operating techniques.

Objectives

The objectives of the Permanent Fund, as expressed by various interested parties, encompass a wide range of ideas including economic diversification, controlled expenditures, saving accounts, revenue sharing, and community development.

The concept of "controlled economic diversification" is being broached by many as one that merits the attention of the populace. If the State can "wisely" funnel money into good investments within its borders, then several goals may be achievable, including those listed below. It should be noted that the utilization of permanent fund monies would be complimentary to the banking system within the State. The funds could thus immensely aid Alaska's citizenry.

1) The renewable resources of the state could be developed, if financially feasible, so that a self sustaining economy would support Alaska's populace.

2) The highly seasonal employment atmosphere that currently pervades the State could be partially alleviated through acceptable industrial development.

3) The establishment of a broader tax base, through industrial development, could insure the State financial viability for future years.

4) The consumer would benefit cost-wise if certain types of goods were produced within the State. The elimination of import transportation charges could be one advantage.

The idea of a "savings account" type arrangement has been advocated by many. The arguments for this action include the following:

1) The rate of economic growth within the State could be partially controlled.

2) The State could still benefit in terms of earnings received from the savings account.

3) The future residents of Alaska would have funding to fall back on should it be needed.

The possibility of "community development" as a viable consideration for utilization of permanent fund monies is suggested by some. The advantages include:

1) The provision of additional health, education, and social needs.

2) The improvement of infrastructure in the form of utilities, power, ports, and roads.

3) The aid to businesses located within the community.

It should be noted at this juncture that many of the aforementioned ideas are complimentary in nature. It is possible that various combinations of these ideas could be successfully implemented so that all Alaskans benefit.

Distribution of Earnings

If House Joint Resolution No. 39 is approved by the voters, then a mechanism to distribute earnings to residents from investments of the Permanent Fund will be of paramount importance to the State. The options under discussion include employment programs, cash grants, social services, and lower taxes.

The ultimate approach to be decided, outlined, and implemented will require the efforts of the Administration, Legislature, and Populace.

The projected figures presented in the following tables are preliminary in nature, but do reveal the general significance of the permanent fund in terms of dollars.

Petroleum Revenue Subject to Permanent Fund

(in millions of current dollars)

	State Oil Royalties	State Gas Royalties	Federal** Royalties	Mineral Lease/Rentals	Bonus*** Sales	Total Revenues
FY 77	34.1	4.6	6.0	?	?	44.7
FY 78	352.0	5.5	5.8			363.3
FY 79	517.1	6.5	5.6			529.2
FY 80	725.8	8.6	6.1			740.5
FY 81	825.0	12.2	7.1			844.3
FY 82	961.9	14.6	7.7			984.2
FY 83	1104.3	83.3	7.8			1195.4
FY 84	1262.7	99.0	7.9			1369.6
FY 85	1379.8	109.1	8.1			1497.0

**The figures in this column are currently subject to a legal dispute between the U.S. and Alaska.

***The possibility of a Beaufort Sea sale in September of 1977 would generate an undetermined amount of revenue to Alaska.

Permanent Fund Analysis at 25% Contribution Rate

(in millions of current dollars)

	Revenue Subject to Contribution	25% Contribution	Permanent Fund Balance
FY 77*	11.2	2.8	2.8
FY 78	363.3	90.8	93.6
FY 79	529.2	132.3	225.9
FY 80	740.5	185.1	411.0
FY 81	844.3	211.1	622.1
FY 82	984.2	246.1	868.2
FY 83	1195.4	298.9	1167.1
FY 84	1369.6	342.4	1509.5
FY 85	1497.0	374.3	1883.8

*The FY 77 figures have been adjusted to reflect the fact that, if approved, the amendment becomes effective 90 days after election returns are certified by the Lt. Governor.

Assumptions

Tariff Rates Relative to TAPS Operation

FY 78 - $5.93	FY 79 - $6.90	FY 80 - $6.01
FY 81 - $5.74	FY 82 - $5.49	FY 83 - $5.38
FY 84 - $5.26	FY 85 - $5.25	

The above rates include tanker, line, and related tariff rates.

Prudhoe Bay Oil Wellhead Values
(per barrel)

FY 78 (I - II QTRS.) - $8.48	FY 78 (III - IV QTRS.) - $8.29	
FY 79 (I - II QTRS.) - $7.95	FY 79 (III - IV QTRS.) - $8.34	
FY 80 - $9.90	FY 81 - $11.08	FY 82 - $12.30
FY 83 - $13.43	FY 84 - $14.63	FY 85 - $15.79

The aforementioned values are based on world oil prices netted back to Prudhoe Bay.

Cook Inlet Oil Wellhead Values

The projected crude oil prices in each Cook Inlet field are held constant within the range of $4.37 to $5.15 per barrel. The royalty oil prices are expected to increase from present levels by only $.10 per barrel per year.

Prudhoe Bay Natural Gas Wellhead Values

The cost of production basis was adopted in determining a wellhead value of at least $.52/MCF (1976 1st QTR. Dollars). If a gas pipeline is completed in mid-1982, then the nominal price per MCF would be approximately $.80. The price is assumed to rise at a rate of $.05/MCF per year thereafter.

Cook Inlet Natural Gas Wellhead Values

The existing and pending contracts were utilized to forecast prices of production from this area.

Thruput Forecast For Prudhoe Bay Oil Fields

FY 77 - 2 MB/D	FY 78 - 929 MB/D	FY 79 - 1.3 MMB/D
FY 80 - 1.6 MMB/D	FY 81 - 1.6 MMB/D	FY 82 - 1.7 MMB/D
FY 83 - 1.8 MMB/D	FY 84 - 1.9 MMB/D	FY 85 - 1.9 MMB/D

Thruput Forecast For Cook Inlet Oil Fields

FY 77 - 178 MB/D	FY 78 - 164 MB/D	FY 79 - 148 MB/D
FY 80 - 135 MB/D	FY 81 - 122 MB/D	FY 82 - 110 MB/D
FY 83 - 101 MB/D	FY 84 - 91 MB/D	FY 85 - 83 MB/D

Thruput Forecast For Prudhoe Bay Gas Fields

FY 77 - 3 BCF	FY 78 - 4 BCF	FY 79 - 5 BCF
FY 80 - 6 BCF	FY 81 - 28 BCF	FY 82 - 42 BCF
FY 83 - 777 BCF	FY 84 - 828 BCF	FY 85 - 869 BCF

Thruput Forecast For Cook Inlet Gas Fields

FY 77 - 147 BCF	FY 78 - 166 BCF	FY 79 - 199 BCF
FY 80 - 257 BCF	FY 81 - 312 BCF	FY 82 - 333 BCF
FY 83 - 339 BCF	FY 84 - 345 BCF	FY 85 - 351 BCF

Cost Factors Relative to TAPS Project

Phase II

Capital Cost	$7.7 MMM
TAPS AIDC	$1.5 MMM
Working Capital	$100 MM

Phase III

Capital Cost	$900 MM
TAPS AIDC	$ 90 MM
Working Capital	$ 50 MM

Inflation Factors

The OPEC oil prices are assumed to track with worldwide inflation rates averaging 6% per annum during the forecast period.

The operating costs of capital intensive transportation systems are assumed to increase at the general rate of inflation of 4% per year.

Amendment as Passed by the Legislature

Source:

SCS CSSS HJR 39 (Resources) am S

HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Thank you

The following individuals were very helpful in providing much of the background material comprising this study.

John Baxandall - Department of Natural Resources

Hoyle Hamilton - Department of Natural Resources

David Knudson - Department of Revenue

John Miller - Department of Natural Resources

ALASKA DEPARTMENT OF REVENUE
POUCH SA
JUNEAU, ALASKA 99811

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Sterling Gallagher asked me to leave this information with you. If you have any questions please call 465-2391.

Vincent Wright

Rep Gruening:

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

FISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.6	17.2	17.2	632.8	626.4	6.4	385.7
FY77	728.7	63.5	15.9	33.1	712.8	705.9	6.9	392.6
FY78	986.4	688.7	172.2	205.3	814.2	871.6	(57.4)	335.2
FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

Original Version

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

FISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE 1) CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND 2) CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	41.6	10.4	10.4	639.6	626.4	13.2	392.5
FY77	729.3	38.8	9.7	20.1	719.6	705.9	13.7	406.2
FY78	986.6	448.2	112.1	132.2	874.5	871.6	2.9	409.1
FY79	1179.1	568.2	142.1	274.3	1037.0	990.8	46.2	455.3
FY80	1487.6	780.0	195.0	469.3	1292.6	1124.6	168.0	623.3
FY81	1880.8	881.4	220.4	689.7	1660.4	1240.9	419.5	1042.8
FY82	2121.7	1001.0	250.3	940.0	1871.4	1259.8	611.6	1654.4
FY83	2414.0	1172.0	293.0	1233.0	2121.0	1300.0	821.0	2475.4
FY84	2661.7	1269.5	317.4	1550.4	2344.3	1400.0	944.3	3419.7
FY85	2829.8	1334.3	333.6	1884.0	2496.2	1500.0	996.2	4415.9

ASSUMPTIONS:

1) Property Tax (20 mill) due date is moved up from Sept. 15th to June 15th starting FY76. Permanent Fund earns 6% on previous years balance which is deposited in General Fund.
General Fund also earns 6% on previous years balance.

2) Revenue subject to Permanent Fund would be Bonus Sales, Federal Shared Oil and Gas Revenues. Total Oil and Gas Royalties - before Alaska NLC contribution is made.

Amended Version

WHITE, WELD & CO.
INCORPORATED
ONE BUSH STREET, SAN FRANCISCO, CALIF. 94104
TELEPHONE (415) 981-1077

July 9, 1976

Mr. James B. Rhode
House Finance Committee
Pouch V
Juneau, AK 99811

Dear Jim:

I was delighted to hear from Ken Butler that our firm was to be asked to continue to serve the Alaska Legislature in regard to financing electric power requirements for the State and in the preparation of legislation and guidelines for creating and operating a Permanent Fund. We appreciate your confidence in us and will continue to devote our efforts to the best interests of the State.

With regard to the Permanent Fund, we suggest the following outline as a basis for initial discussion at the next meeting of the State Investment Advisory Committee:

I. Estimates of size and rate of accumulation of the fund.

A. Conduct a detailed study of anticipated amount and rate of accumulation of principal and earnings.

(1) Take into account recent developments in pipeline construction, estimates of reserves and world price trends.

B. Discuss considerations for preservation of principal while maximizing earnings.

(1) Should both principal and earnings be committed?

C. Explore possible benefits of the use of tax-exempt privilege by the Fund.

(1) Arbitrage considerations.

II. Establishment of specific goals of the Fund.

A. Should the Fund participate only in revenue producing ventures?

B. Should Fund activities be limited to major developmental projects?

(1) Should these be predominantly oriented toward economic diversity for the State?

C. Should the Fund become involved in both public and private ventures?

(1) Joint ventures involving a combination of the above?

D. Should priority be given to assisting projects where there is a critical "bridge" factor missing from an otherwise viable program?

E. What should be the relationship between the Fund and Native Corporations?

F. What are the merits of using Fund assets to create insurance or reserve funds for other financing of projects?

(1) Loans, mortgages, equity, participation, etc.

(2) Industrial Revenue Bonds.

(3) General Obligation Bonds.

(4) Other

III. Conduct a critical review of the operation of other similar funds.

A. Quebec Development Bank.

B. Alberta Heritage Fund.

C. British Columbia Fund.

D. Texas Permanent Fund.

E. Government Development Bank of Puerto Rico.

F. World Bank

G. Asian Development Bank.

IV. Explore required legislative action to accomplish goals of the Fund.

A. Creative legislation.

B. Procedures and guidelines.

C. Investment restrictions.

V. Management of the Fund.

A. Organization.

B. Representation.

C. Decision Making.

I will be on vacation for the month of July. Ken will be available and can direct any of your needs for our services during that time.

We have initiated research on the three Canadian Provincial Funds, the Texas Permanent Fund and the Government Development Bank of Puerto Rico.

With best regards, I am,

Sincerely,

Ted

Theodore P. Swick
First Vice President

MEMORANDUM State of Alaska

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE: April 13, 1976

FILE NO:

TELEPHONE NO:

FROM: Lawrence C. Eppenbach LCE
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: SCS CS SS HJR 39

I have reviewed the Senate State Affairs amendments to the Permanent Fund Resolution. This amendment adopts the House format but changes the percentage sharing formula from 25% of petroleum revenue to 50% of royalties, bonuses, and rentals. In other words, the severance tax is deleted from the sharing. The following table displays the dollar impact of this change using assumptions consistent with the petroleum revenue estimates attached to the original Fiscal Note:

	Millions of Dollars		
	25% Sharing Rate (includes Severance Tax)	50% Sharing of Royalty	Difference
FY 77	$ 15.9	$ 19.4	$ 3.5
FY 78	172.2	224.1	51.9
FY 79	218.6	284.1	65.5
FY 80	299.8	390.0	90.2
FY 81	343.7	440.7	97.0
FY 82	381.6	500.5	118.9
FY 83	439.3	586.0	146.7
FY 84	482.8	634.7	151.9
FY 85	504.6	667.1	162.5
FY 86	529.4	705.0	175.6
Total 10 Years	$2,858.5	$4,451.6	$1,063.7

A second major change is the provision for required reinvestment of 10% of the earnings of the fund. To illustrate the impact of this reinvestment requirement, we have calculated that beginning with a $5 billion fund, then 20 years reinvestment of a tenth of a 6% return would increase the fund to $5.64 billion. If the investment yield were to average 10% then the fund would grow to $6.10 billion.

The amounts become more significant as the term of reinvestment increases. For example, the same conditions for 50 years would increase the fund to $6.74 billion at 6% and $8.22 billion at 10%.

Lastly, the State Affairs version of the Permanent Fund Resolution provides for additional legislative "dedication" of revenue without limitation. This is a massive change in the degree of authority to dedicate funds from that being sought in the original HJR 39. It may not even be what its author had intended. In any case, its effect cannot be measured.

LCE:ge

ASSUMPTIONS

NATIVE CLAIMS
(millions)

FY76 - $ 6.4	FY77 - $ 5.9	FY78 - $ 71.6
FY79 - $90.8	FY80 - $124.6	FY81 - $140.9
FY82 - $59.8		

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX
(millions)

FY76 - $16.3 + $70.1 = $86.4
FY77 - $70.1 + $58.1 = $128.2
FY78 - $128.2 + $23.9 = $152.1
FY79 - $152.1 + $2.3 = $154.4
FY 1980 = $154.4
FY 1981 = $154.4
FY 1982 = $148.2

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT
(millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

Receipts $220 in FY76 $269 in FY77 for a total of $489

Paybacks $109.2 in FY78 $142 in FY79 $198.4 FY80
$ 39.4 in FY81

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

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FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

504.6
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Anc Daily News 5/1/76 p.4

Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or valous worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meanstime and for what purpose?

IF THE FUND is a permanent endowment fund with no near term disbursal of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a cerious economic decline, who has been assisted by te savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?

ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.

WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaksa? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 99 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet!

There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority of Alaska citizens are concerned about excessive rates of growth.

Reports from the fishermen are that overcapitalization, not undercapitalization is the problem in the private sector. It is in the public sector where investment is needed to build fish stocks.

All this new investment may well have only marginal effects because the "soft" money will push out hard money. Particularly if we disburse loans through the existing banking system, the injection of new capital will tend to drive away outside capital, isolating Alaska from national money markets. That is, people will borrow from the easiest and cheapest source available for the class of risk involved. More conservative private investors will invest elsewhere.

LET US ASSUME that no more oil fields are discovered in Alaska, that the gas line doesn't go, that private investment capital is not empted by Alaska's other bountiful resources in coal, steel, minerals; in short, that the prophets of economic gloom for Alaska are correct. Is it then a sound public fund investment policy to put our money into loans or development prospects that no one else thinks are economic?

Ordinary experience indicates that capital invested in submarginal economic activity, money invested in risks that a prudent investor would not touch, is money down the rathole. Only if capital became truly scarce, a phenomenon, should it occur, likely to be national in scope not Alaskan, would state investment in Alaskan capital markets make sense.

There may be merit in encouraging the diversification of Alaska's economy. If it is to be the case, however, it should be through the identification of a solid economic base, not in specious opportunities pumped up by public fund subsidies.

(Monday: Dedicated funds and public extravagance.)

Permanent fund: public extravagance

By JOHN HAVELOCK
(Second of two articles)

Some of the support in Juneau for establishing state dedicated funds arises from perfectly laudable sentiment in favor of public thrift. By expressing such overwhelming enthusiasm for these proposals, our legislators assure us both of their own frugality and the hazards down the road for the treasury if we should be so careless as to replace them with others less dedicated to saving our money.

Unfortunately, there is no substitute for not spending money when it comes to thrift.

DEDICATED FUNDS do not save money. They provide for the manner of its use. By tieing the hands of state budget makers, dedicated funds may well create additional pressures for taxes or other revenue measures.

This is the case even when dedicated funds are required to be accumulated. The effect of accumulation is to assign part of the usual appropriation process to a state bank. Each of the proposals for dedicated funds is potentially a proposal to split state government in two.

One of these governments is familiar to me. I help elect its directors and help to kick them out when they run it badly. The directors are politicians. That means they are eager to please. They spend much time communicating with us about what they are doing and try to state it in understandable terms. If we don't control them effectively, we usually have only ourselves to blame. If we become complacent, they spend money foolishly and raise taxes. That usually wakes us up again.

NOW I SEE ANOTHER, less familiar, twin government on the horizon. We won't notice its management problems as much because it won't have to raise our taxes when it spends money foolishly. We don't know who its managers will be. We don't know what policies they will adopt nor is it likely that they will respond to us on a day to day basis. We must accept that what they do for us will be in our best interests — by benefiting some of the people who are going to be around in thirty years. We will get the trickle down, whatever and whenever that may be.

I am told that I can't trust the government I can control so I should invest my heritage in a government of bankers I can't control. There is no logic to this.

Assuming thrift is our purpose, what discussion has there been of alternatives to constitutional amendment?

FOR INSTANCE, if this wealth is such a public embarrassment, what would be wrong with giving it directly to the people on a per capita basis, perhaps by raising the state's minimum exemption on income tax or by a disbursement to school tax payers? If tax rebate plans are seen as discriminating against the very poor, who have an equal share in our commonly owned resources, maybe we could combine tax relief with increases in welfare payments, or through some more equitable per capita distribution.

Since most of us are quite aware that Prudhoe Bay is just the beginning, how about saving by keeping new oil reserves in the ground or by otherwise dampening immediate income growth through slowing the pace of natural resource exploitation? Since the possibility of a real nuclear power cost breakthrough has

ALASKA FORUM

This is the final installment of a two-part Alaska Forum on the proposed permanent fund to be derived from state oil revenues by John Havelock, the state attorney general during the Egan administration.

pretty well faded away, in the long run, the state's wealth may be much safer in the ground than in the hands of a new banking system.

By dedicating a large part (but not all) petroleum income to a special fund, pressure will heighten on the state to meet normal budget requirements through expanding resource exploitation in order to increase usable income from either royalty or taxation.

IF WE ARE TO HAVE a dedicated fund, maybe we should decide what it's for. There are some traditional objects of public investment that bear good return. Our greatest resources are our human resources. By investing in human resources we get the best return on capital.

If the pie is to be split among "builders, businessmen and fishermen," what rationale will control the split? Legislative approval will come from log rolling — the process of combining enough special interests to constitute a majority. The rush for a piece of the investment fund will be a sight to behold next year if the constitution is amended. Who will come in last? J. Q. Public is a safe bet.

It is possible that an Alaska dedicated fund is desirable. But I would be uneasy about following foreign models, such as Social Credit dominated Alberta, where political and economic traditions and the role of government in the economy are quite different. We do have domestic models in a number of the states. Closest to home, the State of Washington has a dedicated fund for education. The State of Texas has endowed its University.

AGREEABLE AS THESE sound, those who wrote our state constitution had the opportunity to observe these models and rejected them.

Considered individually, out of the context of all government needs, an endowment for loans to fishermen, public education, our pioneers, medical research or whatever, will sound like a swell idea. But the job of government is to balance among all these and hundreds of other laudible competing interests. The relative merits of each purpose will change from year to year as new needs arise and old forms of expenditure seem less pertinent.

There is no need to believe we are spendthrift because we spend natural resource dollars. Those who presided over the founding of Alaska knew that revenue from resource development would be necessary to meet the ordinary expenses of government. Because the Congress knew these resources would go to the state treasury and help pay the way for state government, Alaska was granted statehood. The record of congressional debate is clear.

NO ONE CAN DOUBT the superficial charms of dedicated funds — protecting our money from wicked or profligate politicians. Frugality is a great American virtue. But money saved does not go away, it is just spent by somebody else. If we decide to "invest" it in Alaska we have really only shifted the power of control from one group of people to another: from the legislators, the Governor and the executive branch of government, to bankers and borrowers.

Advocacy of dedicated funds has been based on a theory of economic behavior that has great virtue in the home but little relevance when the state itself is both the saver and the banker. It has also been based on a theory concerning the economic future of the state which is, at best, highly speculative. Many people, including the writer, do not believe that Alaska is likely to face a severe economic downturn in any near future resulting from exhaustion of natural resources. Before establishing a new system for the management of public monies, we should ask ourselves, who benefits? Who loses?

The advocates of dedicated funds have not come to grips with the real problems inherent in a dedicated fund, dedicated not to any purpose but to the principle of saving for its own sake. It is a novel enterprise for the state to set up an investment bank, in the absence of very specific needs for capital. Saving and investing "against a rainy day" is a money management policy dedicated to the benefit of a vaguely defined class of people quite different from the present taxpayers and voters of this state.

WE SHOULD ASK OURSELVES, is there a remedy better suited to meet the ills perceived? The constitutional fathers created a powerful budgetary control tool, rarely seen in state government, in the governor's line item veto. If we are truly concerned about legislative fiscal excesses, we should encourage him to use it.

Management tools, also, such as the recently recommended periodic zero-based budget analysis may prove effective. Dedicated funds discourage zero-based analyses and set up powerful vested interests against change in the status quo of benefit distribution.

If you are worried about the temptation of huge bonus bids, receipts can be leveled out over a longer time by allowing bidders to pledge a per cent of the value of the oil — royalty bidding; by putting up smaller tracts for sale — not a billion dollars at a time; by providing for rental bonuses paid over years. There are many ways to assure income at a steady level over many years.

ULTIMATELY, THE CALL that we protect ourselves from the budgetary excesses of the legislature and the governor is a call that we protect ourselves from ourselves. We are asked to do this by removing a restraint on legislative action, the very purpose of which is to encourage legislative fiscal responsibility.

With this restraint removed, we will be offered a smorgasbord of proposals to dedicate revenue to special investment.

Who benefits? Who loses?

Alaska on Alaska

The sky's the limit **Vol. 4, No.20 August 1, 1977**

Test Well Drilled in Lower Cook Inlet

A TOTAL OF 19 OIL COMPANIES ARE NOW PARTICIPATING in a major stratigraphic test well in lower Cook Inlet. The area is scheduled for an oil and gas lease sale in October. Described as Lower Cook Inlet COST Well No. 1 (Continental Offshore Stratigraphic Test), the 12,500-ft. well is located 43 miles south and west of Homer and is being drilled by the world's largest semisubmersible drillship, the Ocean Ranger. The rig was spudded in early June in 214 feet of water, approximately 20 miles west of the Kenai Peninsula. According to ARCO, operator for the exploration group, the purpose of the test hole is to "obtain information relating to the age, thickness and potential for generating and retaining oil or gas in the various rock formations." Projected cost of the three-month project is $11.4 million. Current plans call for the operation to continue until shortly before the lease sale for the area.

Alaska Fishing, Hunting Fees Top $1 Million in 1976

A RECORD 60 MILLION AMERICANS SPENT CLOSE TO $318 MILLION on state hunting and fishing licences in 1976 according to figures released recently by U.S. Fish and Wildlife Service. The breakdown for Alaska shows a total of $167,873 fishing licenses sold at a total cost to fishermen of $1,284,217. A total of 77,736 hunting licenses were sold and the total cost to hunters, including tags and the like, came to $1,298,635.

Satellite Services Extended to Adak

RCA ALASKA COMMUNICATIONS, INC. HAS BEGUN SATELLITE SERVICES to Adak Naval Station near the tip of the Aleutian Chain. This represents the most western extension of satellite communications by RCA Alascom. Located only three degrees from the 180 degrees meridian, the Adak earth station is the third of a series of 21 satellite ground facilities being constructed by RCA Alascom to replace key sections of the White Alice Communications System. RCA Alascom is leasing the White Alice System from the Air Force and, under an agreement, will replace specified facilities with earth stations. Replacement earth stations are already in operation in Kotzebue and Barrow. Next year RCA Alascom plans to build another station in Shemya.

King Crab Fishery Considered For Nome

A COMMERCIAL KING CRAB FISHERY COULD BE IN THE OFFING FOR NOME. The decision will be based on crab explorations now underway and results to date are encouraging. The Alaska Department of Fish and Game is endorsing the search. Speculation is that if a successful fishery is undertaken, a shore plant would be built in the Nome area to save fishermen the long run to Kodiak. Nome residents have been catching crab for many years through the Bering Sea ice in winter.

Pump Station Loss Lowers Oil Flow Rate

ALYESKA EXPECTS THE FLOW RATE OF THE TRANS-ALASKA OIL PIPELINE TO HOLD STEADY "at about 700,000 barrels per day until pump station 8 is back on the line." The station was shutdown July 8 when an explosion attributed to an open valve leveled the pump house and severely damaged adjacent facilities but did no damage to the pipeline itself. According to Alyeska spokeswoman Beverly Ward, no recommissioning date for the station has been set, mainly due to "uncertainty over delivery dates of replacement pumps and turbines, none of which are off-the-shelf items." Three each of the units must be manufactured according to highly precise specifications unique to the trans-Alaska pipeline pump stations. Loss of the station is expected to postpone the 1.2 million barrels per day delivery rate until early 1978. Alyeska had recently said it would come as early as September 1977.

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Anchorage Firm's Parent Co. Listed No. 1 in Nation

THE RESOURCE SCIENCES CORPORATION (RSC), TULSA, PARENT COMPANY of Alaskan Resource Sciences Corporation, Anchorage, has been recognized as the number one design-engineering firm in the nation in a survey by a major engineering and construction industry journal. *Engineering News-Record*, a McGraw-Hill publication, showed RSC as the country's leading engineering design firm in its annual top 500 listing. RSC is made up of Alaskan Resource Sciences and several other subsidiaries, including: Williams Brothers Process Services, Inc. and Williams Brothers Engineering Company, Tulsa; Holmes & Narver, Inc., Anaheim, California; and Williams Brothers Engineering Limited, London, England. The company offers project management and systems engineering for pipelines, process plants, energy exploration and production, enhanced recovery, mining and metallurgy, water and waste treatment, and communications.

13th Regional Corp. Wants Land Settlement

THE SEATTLE-BASED 13th REGIONAL CORP., WHICH REPRESENTS ABOUT 4,000 NON-RESIDENT ALASKA NATIVES, is beginning to move forward in its campaign to add a land settlement to the corporation's assets. The Alaska Native Land Claims Act excluded the then unformed 13th from sharing in the 40 million acre land grant received by the 12 regional Native corporations in Alaska. The 13th, now well organized and strong, believes that was unjust, and is drafting legislation to change things. Support is being sought from the Alaska-based Native groups and so far there appears to be little open opposition to the 13th Regional Corp.'s proposal. It should be emphasized that the 13th does not intend to siphon off land from the corporations in Alaska. It wants additional lands.

Construction Starts on Sitka Sheffield Hotel

CONSTRUCTION HAS STARTED ON A NEW, 80-ROOM SHEFFIELD HOUSE HOTEL ON THE SITKA WATERFRONT. Bill Sheffield, president of the hotel chain, said the facility is now scheduled to open in October. The establishment will include a marina for pleasure craft, banquet space for 140 persons and a split-level dining room and lounge overlooking the Sitka harbor and Mount Edgecumbe. Space also will be provided for several shops. The hotel is on the site of the former Pelican Cold Storage plant.

New Refinery Proposed For State's Royalty Oil

A $1 BILLION REFINERY HAS BEEN PROPOSED BY A JOINT VENTURE involving several Alaska Native corporations and two Outside firms. The refinery is part of a proposal by Alpetco presented to the Alaska Royalty Oil and Gas Development Advisory Board for purchase of the state's Prudhoe Bay royalty oil. When the trans-Alaska oil pipeline reaches a flow rate of 1.2 million barrels a day, the state will have 150,000 barrels of oil per day for sale. That output has been delayed at least until early 1978 due to the loss of pump station eight. Alpetco, the Alaska Petrochemical Company, would build a petrochemical refinery complex that would process "150,000 barrels of Alaska crude oil feedstock per day, producing gasoline, jet aviation fuels, arctic diesel, fuel oils and a broad range of petrochemicals." An engineering management firm retained by Alpetco estimates over 2,000 Alaskan jobs would be generated by the refinery and its shipping operations. Members of Alpetco include six regional Native corporations (Aleut Corp., Bristol Bay Native Corp., Calista Corp., Chugach Natives, Inc., Cook Inlet Region, Inc., Koniag, Inc.); Alaska Interstate Company; Alaska Consolidated Shipping, Inc.; Seatrain Lines, Inc.; and Barbour Oil Company. The consortium is one of about eight groups bidding on Alaskan royalty oil. The Royalty Board will make a decision by December 1 and a contract will be ready for legislative approval 60 days later.

Survey Shows High Oil Demand

AS THE FIRST OIL FROM ALASKA'S NORTH SLOPE FIELDS NEARS THE VALDEZ TERMINAL and the marketing stage of operations, mid-year forecasts are for a greater demand on petroleum products than ever before. Surveys by the Oil and Gas Journal indicate that national demand for crude oil and petroleum products will be 6.8 percent higher this year than the all-time high set last year. Use of petroleum products during the first half of 1977 has been 8.3 percent higher than the same period in 1976, according to the magazine. The publication predicts that nationwide demand will reach 18.636 million barrels a day in 1977. The survey results also indicate a 9.5 percent increase in the number of wells drilled in the United States this year.

Government Report Issued On Pump Station Disaster

A PRELIMINARY REPORT ISSED BY THE NATIONAL TRANSPORTATION SAFETY BOARD SAID THE BLAST which destroyed pump station 8 on the trans-Alaska oil pipeline was caused by workers disregarding procedures set up by Alyeska. According to the report, pump station workers should have requested permission from the central controller at Valdez before working on the pump. In addition, the report said the workers did not isolate the pump electrically and tag the circuit switch with warning signs before removing a strainer. The report criticized Alyeska for not "completely coordinating the written start up and operation plans at the pump station." The FTSB report recommended that Alyeska set up a manager or management team at each of the pump stations to make sure that workers follow procedures and that Alyeska review the procedures for start up "to ensure that all critical actions will be done in a safe manner."

Wildlife Refuge Hunting Now Requires Permit

THE U.S. FISH AND WILDLIFE SERVICE IS REMINDING HUNTERS planning to hunt on National Wildlife Refuges this fall of some special provisions related to the new permit drawing/registration system being implemented this year by the Alaska State Department of Fish and Game. For the first time a permit drawing will be held for the taking of grizzly bear on the North Slope, including the Arctic National Wildlife Range. Two seasons will be held with one running from September 1 through October 10 and another from May 10 through May 25. The dealine for permit application has passed for this hunt but hunters can apply for permits to take Kodiak Brown bear on the Kodiak National Wildlife Refuge. The deadline to apply for the fall hunt (October 25 to December 21) is August 13. Applications can be submitted to the Alaska Department of Fish and Game until February 6, 1978 for the spring hunt running from April 1 to May 15, 1978.

North Pole Refinery Set for Start Up

A $40 MILLION REFINERY AT NORTH POLE, ALASKA, near Fairbanks is set to go on the line August 15. Owned by Energy Co. of Alaska, the operation will process 20,000 barrels of North Slope crude per day to meet petroleum needs in the Fairbanks area. Oil will be transported both to the refinery and to the Golden Valley Electric Association's generating plant, through a 2.8-mi. 8-in. spur line from the trans-Alaska oil pipeline. The first phase calls for producing heating oil and diesel and military jet fuel by early September. Phases II and III, scheduled for 1978 through 1980, call for production of turbine and commercial jet fuel, asphalt and gasolines. The latter two phases will be completed at an estimated cost of $20 million.

Underwater Mining Institute Set For November in Seattle

THE EIGHTH UNDERWATER MINING INSTITUTE, COSPONSORED BY THE UNIVERSITY OF ALASKA and the University of Wisconsin Sea Grant Programs in cooperation with the University of Washington Sea Grant Program and the AIME, will be held Nov. 10 and 11 in Seattle, Wash. Topics will include: environmental aspects of coastal zone mining; economics and marine mining; ocean law and deepsea nodule mining; nodule nucleation and metals: nuclear methods in marine minerals exploration; geophysics—some new techniques; conservation and marine mining; new frontiers in marine minerals exploration and mining; and coastal mining in Alaska. For further information on fees and arrangements write Dr. Gregory Hedden, Institute Coordinator, Sea Grant Advisory Services, University of Wisconsin, 1815 University Avenue, Madison, Wisconsin 53706. □

High Rise Apartment Proposed for Auke Lake

PLANNING OFFICIALS OF THE CITY-BOROUGH OF JUNEAU are studying a proposal for construction of a high rise apartment building on the west shore of Auke Lake near the University of Alaska-Juneau campus. Dave Horton, who owns the property, is seeking approval for a structure containing between 12 and 24 units of housing. The Planning Department is also studying a master plan for the university.

Forest Service Analyzes H.R. 39 Impact

THE SOUTHEAST ALASKA ECONOMY "WOULD NOT BE SIGNIFICANTLY IMPACTED" by d-2 national interest lands legislation proposed by Arizona Rep. Morris Udall, according to the U.S. Forest Service. The agency recently concluded there would be little negative impact by the proposal after it analyzed the provisions of the highly controversial H.R. 39 "Udall bill." Included among the terms of H.R. 39 is the removal of more than four million acres of the Tongass National Forest from multiple-use classification. The four million acres would be given single-use wilderness status. Such action would close Admiralty Island to logging and would also likely make a planned sawmill in Juneau no longer viable. During recent hearings in Southeast Alaska, a large majority spoke out against the Udall bill, describing it as anti-employment.

Yukon Indians React to Energy Board Recommendation

CANADA'S COUNCIL OF YUKON INDIANS (CYI) HAS EXPRESSED "SHOCK AND DISAPPOINTMENT" over the recommendation by their country's energy board that a gas pipeline be built through the Yukon Territory. According to a CYI release, the (Canadian) National Energy Board's recommendation "is not the final decision in this matter and the Council does not intend to give up its fight against this and any other pipeline which threatens the progress of the Indian people toward full self-determination and self-control of Indian destiny." The position presented by the CYI to the recent Berger Commission which studied the Arctic Gas route, to the in-progress Lysyk study of the Alcan proposal and to the NEB states that the Council "will not stand by and watch the construction of pipelines while the question of land claims settlement and its implementation are still pending and outstanding."

Contract Award Activity High During June

A SURGE IN CONSTRUCTION AWARD ACTIVITY DURING THE MONTH OF JUNE has pushed the total of heavy construction contract awards reported in Alaska during the first six months of 1977 to $146.6 million according to Alaska Construction and Oil magazine. June's total of $61 million is the largest monthly total recorded so far this year and is far above the $20 million total for June 1976. The June recovery was not enough, however, to offset earlier low monthly figures and the six-month total is 24 percent below 1976's mid-year figure.

New Agreements Announced by Gas Companies

NORTHWEST ENERGY CO., PARENT FIRM OF NORTHWEST PIPELINE, HAS ANNOUNCED SIGNING A CONTRACT with Pan-Alberta Gas Ltd. of Calgary for delivery to the United States of up to 800 million cu. ft. of natural gas a day for five years. A company statement said the agreement, starting in 1979, is for a loan of the gas and is dependent upon approval by the U.S. government of a trans-Canadian route for the natural gas line from Prudhoe Bay. Northwest Pipeline, which backs the Alcan gas line route, believes the pact will give its proposal an added impact with President Carter when he makes his recommendation on September 1. **Meanwhile,** the State of Alaska has announced that it will guarantee $750-$800 million of the cost for constructing the all-Alaska route proposed by El Paso Alaska. The offer would be backed by the state's newly established permanent fund and would allow gas line builders to secure loans at lower interest rates, according to government spokesmen. To become effective the offer will need an additional commitment of the state's oil and gas royalties and bonuses to the permanent fund. Currently 25 percent goes into the fund, but the state legislature has the power to raise that percentage.

Interior Secretary Tours D-2 Lands, Offshore Areas

INTERIOR SECRETARY CECIL ANDRUS RECENTLY TOURED some of Alaska's proposed national interest (d-2) lands and areas scheduled for offshore leasing in the fall. Included on his national parks itinerary were visits to Katmai National Park and proposed additions, Lake Clark and Harding Ice Field. Interior is scheduled to make its recommendations for additional federal system withdrawals by mid-September. Under terms of the 1971 Alaska Native Claims Settlement Act, the Secretary is directed to withdraw up to 80 million acres for national parks, forests, wild and scenic rivers and wildlife refuges. Congress can increase or decrease that amount. The Interior chief also visited Kachemak Bay and English Bay on the Kenai Peninsula, two areas which are adjacent to tracts in lower Cook Inlet that will be up for oil and gas leasing in October.

Brubaker Heads Team Studying NPR Land Use

RAY BRUBAKER, A BUREAU OF LAND MANAGEMENT OFFICIAL FROM MONTANA, has been selected to lead the task force studying the National Petroleum Reserve in Alaska, formerly Naval Petroleum Reserve No. 4. The team is to compile a land use plan for presentation to Congress in 1979. Seven work groups, representing various federal agencies, are in the field now, studying such subjects as native dependence on the area, recreational possibilities, history and fish and wildlife populations. A resource inventory also will be drawn. The BLM is responsible for surface management of the reserve.

Correction: Governor Ray in Strong Opposition to Udall Bill

THE JULY 4 ISSUE OF ALASKA ON ALASKA ERRONEOUSLY listed Washington Governor Dixy Lee Ray as one of those in support of the so-called Udall bill (HR39), which would set aside some 116 million acres of Alaska land for wilderness and wildlife preservation. The governor came out in strong opposition to the bill. Due to a typographical error, her support was placed at the wrong end of a sentence—and on the wrong side of the issue.

New Alaska Corporations

KEE International, Inc., SR2, Box 738, Soldotna, AK 99669; **International Gold Nugget Distributors, Ltd.,** 7th Floor, 510 L St., Anchorage 99501; **Quality Construction Alaska, Inc.,** 2718 W. 65th Ave., Anchorage 99502; **Suburban Center Development, Inc.,** P.O. Box 1630, Wasilla, AK 99687; **Provider, Inc.,** 311 Franklin, Ste 201, Juneau, AK 99801; **Rondys, Inc.,** Seattle Ship Supply Co., Fishermen's Terminal, Seattle, WA; **Mark I, Inc.,** 8801 Golden Gardens Drive N.W., Seattle, WA 98107; **Howard-Cooper Corporation,** 8501 N.E. Killingsworth, Portland, OR 97220; **Atlantico, Inc.,** Seattle Ship Supply, Fishermen's Terminal, Seattle, WA; **Sigfried K., Inc.,** 23221 Wachusett Road, Edmonds, WA 98020; **Gray Tool Company,** 811 Dallas Ave., Houston, Texas 77002; **Curry Copy Centers of America, Inc.,** 43 Harvard St., Worcester, Mass. 01608; **Sunlite International, Inc.,** 43 North Sierra St., Reno, Nevada; **King & Winge, Inc.,** Spruce Cape Rd., c/o J.L. Hall, Box 2137, Kodiak, AK 99615; **A & S Trucking, Inc.,** Box 4-1482, Anchorage 99509; **D & D Towing and Auto Repair, Inc.,** P.O. Box 962, Valdez 99686.

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Permanent fund: new independence

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2 lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the $900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

ALASKA FORUM

(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)

It would be unfair to say that the total expenditure of the $900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employees has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employes.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust ". . . for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

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President Carter
during fireside chat

Economist stuns gas line panel

By PAUL NUSSBAUM
Our Juneau Bureau Chief

JUNEAU — A University of Alaska economist Wednesday splashed cold water on hopes for a trans - Alaska natural gas pipeline and said state efforts to influence the gas route decision were futile and motivated by politics.

In the most spirited testimony in the three-day-old hearings on proposed royalty natural gas contracts, economist Dr. Arlon Tussing told state legislators "there is nothing the state can do to advance a trans - Alaska pipeline within the U.S. political system.

"THERE IS no chance for an El Paso line as long as there is a chance for a trans - Canada line, and there is nothing that any of the purchasers or the state can do in that respect."

Gov. Jay S. Hammond's administration is seeking legislative approval of three contracts which would sell the state's one - eighth share of Prudhoe Bay natural gas to a trio of gas transmission companies in exchange for their support of an all - Alaska gas pipeline. El Paso Natural Gas Co. proposed to build an 800 - mile line through the state roughly parallel to the trans - Alaska oil pipeline.

Tussing, who served as chief economist for the U.S. Senate's national fuels and energy policy study, predicted a trans - Canada route proposed by Arctic Natural Gas Co. would win approval from the Federal Power Commission and the President. But Tussing said internal Canadian problems would make an Alaska Highway route similar to one proposed by Northwest Pipeline Corp. the most likely eventual route taken by the Prudhoe Bay gas.

TUSSING characterized state efforts to win support for an all - Alaska gas pipeline as political activity aimed primarily at keeping state residents happy and misinformed.

"Suppose you were the governor of Alaska and were under assault from the Anchorage Times, OMAR, and the Anchorage business community for not giving full support to El Paso, and you were also convinced that El Paso had little chance ... It would be an astute political move to go ahead and call

Dr. Arlon Tussing

"The governor could come back to the legislature with contracts that don't mean anything . . . then where does the political finger point? You guys bear the onus then . . . if you didn't pass the contracts, you would be characterized as the ones who defeated the trans - Alaska gas pipeline.

"IF THEY DID pass, this hypothetical governor could then show he demonstrated exceptional leadership, that he did everything he could and more than he could have been expected to do, and managed to carry along those legislators who were going off in every direction as well."

Tussing, speaking without a prepared text for more than an hour, pulled no punches in lambasting the

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1946 by Norman C. Brown

Permanent fund: new independence

ALASKA FORUM

(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2 lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the $900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

It would be unfair to say that the total expenditure of the $900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employes has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employes.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust "... for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

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Anc Daily News 5/1/76 P.

Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or vaious worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meanstime and for what purpose?

IF THE FUND is a permanent endowment fund with no near term disbursal of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a cerious economic decline, who has been assisted by te savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?

ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.

WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaksa? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 99 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet!

There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority of Alaska citizens are concerned about excessive rates of growth.

Reports from the fishermen are that overcapitalization, not undercapitalization is the problem in the private sector. It is in the public sector where investment is needed to build fish stocks.

All this new investment may well have only marginal effects because the "soft" money will push out hard money. Particularly if we disburse loans through the existing banking system, the injection of new capital will tend to drive away outside capital, isolating Alaska from national money markets. That is, people will borrow from the easiest and cheapest source available for the class of risk involved. More conservative private investors will invest elsewhere.

LET US ASSUME that no more oil fields are discovered in Alaska, that the gas line doesn't go, that private investment capital is not empted by Alaska's other bountiful resources in coal, steel, minerals; in short, that the prophets of economic gloom for Alaska are correct. Is it then a sound public fund investment policy to put our money into loans or development prospects that no one else thinks are economic?

Ordinary experience indicates that capital invested in submarginal economic activity, money invested in risks that a prudent investor would not touch, is money down the rathole. Only if capital became truly scarce, a phenomenon, should it occur, likely to be national in scope not Alaskan, would state investment in Alaskan capital markets make sense.

There may be merit in encouraging the diversification of Alaska's economy. If it is to be the case, however, it should be through the identification of a solid economic base, not in specious opportunities pumped up by public fund subsidies.

(Monday: Dedicated funds and public extravagance.)

PF
News
Clips

Out Of Foresight . . . Opportunity

With much of the nation shivering and many workers idle, Victor Alhadeff is busy pursuing opportunity.

Alhadeff Of ENI: He expects blue-chip companies to put "hundreds of millions" into energy ventures.

LATE LAST MONTH Damson Oil & Gas Drilling Program 74-2 sold out its producing wells to Libbey-Owens-Ford for $4 million. No, Libbey-Owens was not diversifying; it was looking for sources of fuel to avoid future shutdowns like those that paralyzed its plants during the recent cold crunch.

Libbey-Owens was the third company in the last few months to go this route, and many more will be doing so shortly, according to Victor D. Alhadeff, 30, chairman of ENI Corp. in Seattle, Wash., leading oil and gas tax shelter specialists. In less than six years Alhadeff has become the largest single factor in financing independent oil and gas enterprises in the U.S.; many of the Damson investors were his clients. Says Alhadeff: "We are negotiating with three New York Stock Exchange companies to sell them producing wells, as in the Damson deal.

"That potential," says he, "was set in motion in early January at an energy conference on acquiring natural gas in the field in Houston, Tex., which was attended by 120 blue-chip companies. The consensus reached then by a majority of the companies was that they should invest in new drilling ventures directly as well as buy existing production of natural gas. As a result, you're going to see several hundreds of millions coming from this source this year and next."

All that won't solve the natural gas shortage by a long shot, but it will provide a bonanza for drilling investors and for people like Alhadeff.

Since he began in 1971 he has steered some 1,600 clients into $130 million worth of oil and gas funds. Moreover, Alhadeff has also brought out his own diversified drilling fund. It will put investors into a group of oil and gas drilling ventures with numerous different operators, thus giving them a play in many areas.

While moving fast to take advantage of the gas shortage, Alhadeff has rather harsh words for the policies that produced the shortage. He says: "It is ironic that the two states hardest hit by gas shortages, Pennsylvania and Ohio, are states that are sitting on top of lots of old partially depleted wells. But the price for intrastate oil in those states was set so low by politicians that no one wanted to drill and wind up losing money. If the politicians had set the price at $2 per thousand cubic feet as they do in Texas, those states wouldn't be in as desperate a situation as they are in now."

Having delivered himself of this blast, Alhadeff picked up the telephone to talk with a prospective investor. Like smart businessmen everywhere, he is, in the end, less interested in past problems than he is in pursuing present opportunities. ■

"Way Up There . . ."

. . . The question is: How will 400,000 people in Alaska spend over $7 billion?

BETWEEN NOW and 1985, the state of Alaska's share of North Slope, Prudhoe Bay and Cook Inlet oil and gas production is expected to exceed $7 billion. Revenues from the state's substantial coal, iron ore and molybdenum reserves could boost Alaska's income by billions more. The question now facing the state's 400,000-odd residents is: What will we *do* with all that money?

Late last month, FORBES obtained a copy of draft legislation detailing part of Governor Jay S. (for Sterner) Hammond's answer: Nine neatly typed pages outlining the creation of the "Alaska Permanent Fund," a concept approved overwhelmingly by Alaskan voters last November. While the language is loose, two things are clear: The Permanent Fund will hold the keys to a good deal of Alaska's future development. And, the Fund will be no free-lunch wagon.

In general, the Permanent Fund will be part savings bank, part development bank. Specifically, the draft bill provides that:

- One-half the revenues derived by Alaska from its mineral resources—expected petroleum revenues alone should bring the Fund's balance to nearly $4 billion by 1985—must be put into the Permanent Fund.
- At least 40% of the Fund's balances must be put into "investment-grade securities"—presumably corporate and government debt.
- As much as 30% of the remainder may be used for low-interest loans and other incentives to supplement private capital within the state.
- No more than 30% of the Fund may be used for public works.
- If the Permanent Fund is directed to invest in projects earning less than market rates of return, then the state's general fund must make up the difference and pay it into the Fund.

If the Alaska Permanent Fund sounds fiscally conservative, it is—and by no accident. Last August, Alaska's State Investment Advisory Committee, which drafted the legislation, hired Wall Street investment bankers White, Weld & Co. to aid in the Fund's design. Explains Charles J. Fuhrmann II, the dapper, 32-year-old White, Weld first vice president working behind the scenes on the proposed legislation: "We tried not to be

Harvard Business School-ey and tell the Alaskans what to do. But we have told them the risks in terms of their credit standing if the Fund doesn't get the market rate and becomes, instead, a little welfare station subsidizing everything in sight."

But Fuhrmann is the first to stress that the Fund's political hassles are only about to begin: "Everyone is trying to keep things friendly and make this bill look like a consensus. But the real wars are still to come. No one has had a chance to present an alternative. But when this bill goes to the legislators, everyone will."

The problem is that Alaskans are as diverse as the state is rich. It took voters years to decide whether to keep their state capital in Juneau or move it to Anchorage. (Last November's decision: Build a new capital somewhere in between Anchorage and Fairbanks—a "North Brasilia" as some wags already dub it.) So you can imagine the coming struggle over who will control the Permanent Fund, and how its income should be used. Some groups want to reinvest it all. Others want to spend it all—on "North Brasilia" perhaps. Still others want to divvy the Fund's income among the state's citizens. By 1985 each year's dividend could well exceed $1,000 for each Alaskan resident.

"The amazing thing in all this," says Fuhrmann, "is that it's happening just 4,000 miles away, yet no one on Wall Street is aware of it. There's this feeling that, 'Well, it's Way Up There . . .' But suddenly the Fund will be there with lots of money in it, and Wall Street will be beating down the Alaskans' doors with lots of investment opportunities and recommendations and so forth. And we hope still to be up there helping the Alaskans evaluate all those proposals."

Moral: However cold it may be, get your foot in the door. It seems White, Weld has already done so. ■

PF: News clips

L.A. Times

Alaska May Offer Gas Delivery Funds

Considers Financing All-American System to Transport North-Slope Fuel

BY DAN FISHER
Times Staff Writer

Alaska is considering a plan to guarantee all or part of the financing necessary to build an all-American system for delivering North Slope natural gas to California and the lower 48 states, a top state official testified here Wednesday.

The plan, outlined by Alaska Lt. Gov. Lowell Thomas Jr. at a hearing of the California Commission for Economic Development, could bear importantly on an upcoming Carter Administration decision on which of three competitive Alaskan gas plans should be approved.

The all-American system, proposed by El Paso Natural Gas Co, has generally been considered a long shot in the competition, especially since the U.S. Federal Power Commission recommended to President Carter on Monday that he select one of two trans-Canada pipeline alternatives. Both of those routes are conditional upon the consent of the Canadian government.

El Paso's proposal is for a new gas pipeline roughly paralleling the oil line currently being completed from Alaska's North Slope to the ice-free port of Valdez on the Pacific Coast. The gas would be liquefied at Gravina Point, Alaska, and shipped by special cryogenic tankers to a proposed terminal and regasification facility at Point Conception on the Southern California coast. From there the gas would be distributed throughout the country in existing pipelines.

Alaska favors the El Paso plan because it will mean far more tax dollars and jobs in the state than either of the trans-Canada lines. The state's economy has been buoyed since 1974 by construction of the trans-Alaska oil line, but that job is expected to be done this summer, and officials are concerned that without the gas line project, the state's economy might go into a tailspin.

Among criticisms of the El Paso plan has been the charge that it will be the most expensive of the three alternatives. However, Alaska may change all that, Thomas testified Wednesday.

"The state of Alaska is currently considering a finance plan to guaran-

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Continued from Third Page

tee bonds or debentures needed to construct the trans-Alaska LNG facility," he told the commission.

The liquefaction facility at Gravina Point accounts for nearly one-third of the estimated cost of the El Paso system, and if the state guaranteed the bonds necessary to finance it, the company presumably would be able to borrow the money at a lower interest rate.

"If this plan is put into effect the price to consumers in the lower 48 would be lowered by 3%," Thomas said. The state is also considering backing the pipeline portion of the project as well, the Alaska official said. If it backed both the pipeline and liquefaction facility, the savings could be nearly 14% over currently projected costs. That could make consumer prices under the El Paso plan less than under either of the competitive, trans-Canada proposals, Thomas added.

Thomas said in a subsequent interview that Alaska officials have been "kicking it (the finance plan) around very informally for a couple months. But now it's gaining a real head of steam." The state intends to reach a decision within two months. Carter is scheduled to make his decision on an Alaskan gas route by Sept. 1, so Alaska's verdict will come in time for its impact to be felt by the White House.

Perhaps even more important than its impact on the White House would be the effect of Alaska's financing plan on the Congress. Under legislation passed last year, Congress will have 60 days to review the President's decision once it is made. And many insiders feel that it will ultimately be the Congress which selects an Alaskan gas route. Proponents of all three competing routes are lobbying heavily in Washington and elsewhere.

Thomas said the financial wherewithal to back El Paso's plan could come from a permanent fund which the state created last year to set aside a portion of its Prudhoe Bay oil revenues. Or, Thomas said, "it could be backed by our general fund. We feel that with a company like El Paso, the chances of it going belly up are almost nil."

??

Urion Says House Erred

The Democratic House leadership, and not the Senate coalition, was to blame for the 141-day legislative session, contends House Minority Leader Rick Urion.

"The long session was caused by House members who insisted on waiting as long as they could to force through some of their personal legislation, and the mood of the Senate was not to pass any of this useless personal legislation sponsored by those who believe the only way they could get re-elected is to pass bills with their name on them," Urion said.

"When they finally realized the Senate was not acting on that type of legislation, the session ultimately adjourned," he said.

The Anchorage Republican called the session "a total standoff, a philosophical standoff which, in my opinion, was good. It's just unfortunate we had to spend 141 days doing it."

The permanent fund is one area where the legislature should have taken substantive action, but did not, the third-term representative said, although he noted it did pass an interim measure to give Revenue Commissioner Sterling Gallagher powers to invest money until action is taken.

"The real issue of the permanent fund ... has remained on the back shelf because it's going to be used as a campaigning tool for some of our members who wish to run for higher office," he alleged.

Slim's Column

Keep 'em out

It was an act of the most intense cruelty, building that fence. He didn't build the fence to keep out neighbors, or their dogs. He didn't build the fence to protect his garden from moose. He, whoever he is, built that fence just to rub salt in the wounded consciences of bush dwellers.

The guy's house sits within 100 feet of the Glenn Highway, in plain sight of the passersby, and there is that fence—taunting, teasing, and crushing the guilt complexes of those of us who care.

YOU SEE, this dude built his entire half-acre fence of firewood. About six feet high, extending clear around his property with no nibbles to show that he occasionally got cold.

It was criminal. You see, his house is one of those big, modern things. Built in the Early Alaskan Housing Development Period, with a full daylight basement, and aluminum siding in pastel shades on the top floor. He probably has natural gas heat, electric baseboards, two oil furnaces and a heating pad to keep him warm. His solitary chimney showed what all that wood was intended to be used for.

ALL OF US WHO HAVE TO CUT WOOD for a living (it IS a living—ever tried to live in the winter with no heat?) would drive by, shake our fists at this abomination, and loudly speculate on his family tree.

During this time, the wife generally just stares at that immense woodpile encircling the grounds, and says, quietly, "I'll just bet HIS wife doesn't have to get up at 6 a.m. and tramp through the woods with a Swede saw looking for a deadhanger. No-o-o, I'll be she just slips on something dainty and reaching out the window pries loose a [illegible] on that beautiful fence, then cozily nudges up to the fire and dreams about spring."

The only appropriate rejoinder left to us is to mention that the Fenceman, as he is now known, has to pay a whopping big light bill to keep his place warm, and the fire is just for looks.

"HOW WOULD YOU like to pay his electric bill?" we snarl, seeming to rise beautifully to the occasion.

Then the "Little Lady" looks demurely at her roughened fingernails and replies: "If I had a fence like that, I wouldn't have to pay an electric bill."

Then last week, we were driving by and noticed a tremendous hole in the fence. At last. The speculation is running wild. Did he become unemployed, and the utilities company cut off his alternate supply of heat? Has he been entertaining a lot lately, and need the mood a fireplace gives? Did a truck lose control, and...

BUT NO, the truth is probably that the guy just hasn't gotten around to cutting more for that fence yet.

Someday, we say, we're going to drop by casually and get acquainted. It is our fervent hope that this guy turns out to be the chairman of the board of some huge corporation, or a millionaire of some sort or other, and has a whole stable of chain-saw-slaves to cut that wood for him. It is the only way we could ever save face. For no matter how sincere we get every spring about how monstrous that firewood pile is going to be, come freeze-up, it's always about four chunks that still need to be split.

OUR FEAR is that he is just a hard-working man, and our hope is that he gets termites.

...ed school space

...the Lathrop Building may also ...y on a monthly lease.

...Garzini said that at this point, "it doesn't look like we will have to ...ve int[illegible] schools," although [illegible] some [illegible]

...plans are being made on the presumption that the space will not be available.

"This is being done," he said, "so there will be no problems if things don't work out." [illegible]

What others say

Permanent fund provisions

The legislature approved the establishment of a permanent fund derived from state oil revenues last year, but the governor vetoed it.

According to the Hammond administration, which supported the idea of a permanent fund, the Alaska Constitution is clear on what is supposed to happen to revenues that the state collects: they go into the general fund for annual legislative appropriations.

The administration's conclusion: before a permanent fund can be established (one which future legislatures wouldn't be allowed to deplete) a constitutional amendment is in order.

This session, the permanent fund legislation calls for just that: a constitutional amendment, a question that would go before the voters as a ballot issue if two-thirds of the legislature approve.

In broad, conceptual terms, a constitutional amendment should be required because the idea is both a guarantee to all Alaskans—present and future—and a long-range, built-in economic safeguard.

In practical terms, the permanent fund would collect a portion of oil revenues and divert it into a lasting investment fund, growing each year that oil flows and collecting interest.

A percentage of the permanent fund would go for direct use by Alaskans—loans to businessmen, fishermen and builders. It could lend a significant boost when oil revenues stop and the economy threatens to lag. It also would give the state an important alternative: Instead of spending oil revenues automatically for more bureaucracy, the state would be allowed to open a sound "savings account."

Exactly how the permanent fund is set up would be the job of future legislatures. Our elected representatives, by law, would prescribe how the money is to be invested. That may demand a different application of the fund from one year to the next, but flexibility to meet changing demands is guaranteed by current legislation.

Likewise, future legislators would be able to decide what to do with the considerable earnings of the fund. Perhaps that extra dividend will be needed sometimes for general operating expense; at other times, perhaps the dividends could be simply reinvested in the fund itself. The freedom to choose must be built into the fund.

Two legislative plans on the permanent fund are being considered in Juneau.

The first would take one-quarter of all revenues from oil and place them into the permanent fund. This would include revenues from oil taxes, bonuses, royalties and other producers.

The second proposal would exclude revenue from oil taxes, but hike the amount from bonuses and royalties to 50 per cent.

Under present circumstances, both plans would produce the same amount of money—roughly $3 billion within 10 years, and earn some $100 million annually in interest.

Which plan, however, might work better? For a number of reasons, the first plan has greater merit. By collecting 25 per cent of all revenues—including oil taxes—it provides a broader base for the fund and allows greater flexibility for future lease sales.

The second plan has a shortcoming: because its revenues are collected only on bonuses and royalties, it appears to be predicated on future oil lease sales—something the state may not wish to do.

The State House on March 25 approved the plan for 25 per cent of all revenues by an overwhelming, 36-1, majority, providing a clear mandate for careful consideration in the State Senate. So far, it has been passed in amended version by one Senate committee, and has two more committees to go before consideration by the full body.

The permanent fund indeed is one of the most pressing priorities before the legislature. The Senate should act promptly to pass the bill.

The Anchorage Daily News

Alaska 'Most Socialist State,' Nobel Economist Says Here

Alaska, like states in the Lower 48, is following policies of increased government spending and taxes that are suicidal to the residents' prosperity and freedom, Dr. Milton Friedman from the University of Chicago said yesterday at a business conference here.

The 64-year-old professor, who received a Nobel Prize last December for his work in economics, said the role of government in the private sector has been steadily increasing for the past 40 years, and that it is time to put a limit on state and federal spending.

Friedman addressed approximately 400 top state officials, legislators and businessmen during a conference sponsored by Alaska Pacific Bank at the Captain Cook Hotel yesterday.

He said Alaska is the most socialist state in the country and pointed out that 30 per cent of the working force here is government-employed. Friedman, who is originally from New Jersey and still has his accent although he has spent the past 30 years in Chicago, said Alaska hasn't been able to resist spending the cornucopia from the North Slope oil fields.

Gov. Jay Hammond, who stopped in Anchorage yesterday on his way home from Washington, D.C., to speak to the group, concurred with Friedman's observation about increased state spending and the wasteful use of $900 million in bonuses from oil and gas lease sales in 1969.

"Many think Alaska has money to burn . . . but we are either going to have to turn down the heat on state spending or use different money to pay our way," Hammond said.

The state was better off in the 1960's than it is today because expanded services and rising costs were matched with increased taxes, Hammond said. That situation no longer exists and state expenditures outstrip per capita taxes by $300.

Instead of spending "nest egg wealth" from the sale of oil leases to operate state programs and services, government has to become self-sufficient, Hammond, who took office in 1974, said.

The governor elaborated on his idea of Alaska Inc., a concept to share the wealth of the state with its residents through dividend payments. He said his proposal would be a big step forward in curbing state spending and it would allow the residents to determine how part of the state's money is spent.

"Independent in All Things — Neutral in None"

FAIRBANKS

Daily News-Miner

Monday, May 3, 1976

Editorials . . . Comment

Permanent fund?

Every year a number of good ideas get lost in the final days of legislative battle in Juneau. The permanent fund bill is one of the more important of these innocent bystanders that appear threatened this year.

Supporters of the permanent fund seek to force a certain percentage of the state's one-time financial windfalls, such as oil development income, into a place where it will be free from the hands of shortsighted politicians looking to fill annual budget holes, and where it can earn more income to develop the state's more stable resources.

The $900 million the state received for its 1969 Prudhoe Bay oil lease sale was put to this use at first, but it became too great a temptation for politicians scraping by on the state's regular income.

State leaders began dipping into the $900 million with an eye to gradually expanding the government to the level it would attain when oil production began pumping hundreds of millions of dollars a year into the state treasury. Soon the oil lease bankroll was paying nearly half the state's annual operating costs, and the trans-Alaska pipeline delays combined with the rapid expansion to run the $900 million dry long before the oil money began to come in, forcing the state last year to adopt the special oil reserves tax, which is basically an advance on our future oil earnings.

On an even longer scale, our more far-sighted state leaders realize that the huge Prudhoe Bay field won't pump oil forever, and at least some of its earnings should be retained after the rest is gone. Chances are slim that another Prudhoe Bay will be discovered on state land; oil companies drilled almost three times as many North Slope exploratory wells last year alone as were drilled in all the years before the Prudhoe Bay discovery, with little to show for them.

Alaska's other economic mainstays, mining, timber, fishing, tourism and agriculture, are not the near-bottomless tax resource that the oil industry is. Some will need massive infusions of state funds to get them to the point where they will contribute substantially to our state's economy.

A recent economic forecast by the University of Alaska's Institute of Social, Economic and Government Research (ISEGR) predicts Alaska's non-oil resource industries will not reach great levels by even 1990.

"The real output of Alaska's fishing industry is projected to expand at just one per cent a year," the ISEGR report states. "Agriculture and nonpetroleum mining....may be of local importance, but their impact on the total state economy is likely to be quite minor."

The report says the timber industry may nearly double its output by 1990, but its growth rate will drop to 2.5 per cent per year after that, and "by 1990, the industry is expected to be approaching its maximum long-run sustainable yield."

The permanent fund was to have been established by a bill adopted by the legislature last year, but the governor vetoed the bill when advised by the attorney general that the state constitution forbids a permanent fund.

That legal opinion is widely debated, but the governor introduced a joint resolution this year for a constitutional amendment creating the permanent fund, with the voters approving it in this year's elections.

The resolution easily passed the House, as the bill did last year, but in the Senate it was assigned to three committees and has been progressing rather slowly. With the final days of the legislative session coming, it has been greatly amended by one committee and appears to be headed toward a bitter free conference fight if it ever emerges from the Senate at all. House leaders say the resolution is a top priority item in their strategy this year.

We hope the legislature, in its annual end-of-session tussle, can find something else to fight over and will approve Governor Hammond's resolution in essence.

4—Anchorage Daily News, Tuesday, April 20, 1976

ANCHORAGE DAILY NEWS

Lawrence Fanning
Editor and Publisher, 1967 to 1971

Katherine Fanning, Editor and Publisher
Frederick W. Field, President
Stan Abbott, Executive Editor
Tom Gibboney, Managing Editor

Alaska's Only Morning Newspaper
Founded in 1946 by Norman C. Brown

Our views:

A future fund

As lawmakers enter the traditional end-of-the-session crunch in Juneau with major legislation still to be finalized, one measure deserves priority treatment: the permanent fund.

The legislation proposes, by constitutional amendment, that a lasting fund be established from some portion of the state's oil revenues. It would be a fund for the future, a permanent fund.

How would it work?

The terms are still being debated and the precise guidelines yet to be drawn, but under one bill endorsed by the State House and the Hammond administration, 25 per cent of all oil revenues collected by the state would go into a permanent fund. This includes 25 per cent of all oil taxes, bonuses and royalties.

Such a fund would total roughly $3 billion in 10 years, earning more than $100 million annually in interest and return on interest.

This kind of permanent fund would do three important things.

—By building a permanent fund from looming oil revenues, a check could be placed on state spending. No longer would every new dollar in the state treasury automatically be earmarked for social programs, capital projects and new state payrolls.

—Instead, the fund [illegible] to redirect the manner in which public revenues are used to satisfy public needs. It would allow Alaskans to directly share from the oil revenues because the permanent fund would offer loans to businessmen, builders and fishermen. This would pump money to Alaskans who, in turn, would pump it back into the state's economic mainstream. The state would be investing in itself.

—Most importantly, the permanent fund addresses that day when the oil runs out. To be sure, oil is a non-renewable resource; it won't last forever. Even Prudhoe Bay's profitability, for example, is projected to have a life of only about 30 years. Since the state's economy cannot always be geared to oil, the alternative clearly is diversification, building an economic base which spans numerous renewable resources and less wasteful industries.

The permanent fund holds a lasting promise of tomorrow. With money available when the oil rush has ended, the state's service industries, contractors and merchants won't be overly strapped.

The goal of Alaska's proposed permanent fund may be better understood by borrowing from the thinking which went into naming a similar program in Alberta, B.C. There, such a program is called the Alberta Heritage Trust Fund.

The permanent fund indeed would be a trust, held inviolate for prescribed uses. It also would have much to offer the state's heritage for it would preserve for future Alaskans some of the benefits of oil wealth.

(Wednesday: A closer look at the politics of the permanent fund.)

DAILY NEWS

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Permanent fund: new independence

ALASKA FORUM

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor – a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2 lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the $900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)

It would be unfair to say that the total expenditure of the $900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employes has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employes.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust ". . . for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

However, the real problem facing the state is just the opposite extreme – too much is being spent to meet supposed immediate needs by auctioning off non-renewable resources which in some part rightfully belong to future generations.

The supreme arrogance is the supposition that any one administration or legislature has all the answers. The annual allocation of 100 per cent of current non-renewable resource revenues to what are then perceived as priorities hardly gives future governments much to work with. A permanent fund should and can be structured to as to be flexible enough to meet future needs. On the other hand, given the present level of per capita government spending in Alaska, a modest 25 per cent set aside of revenues from one time only mineral development will not hamstring necessary government operations.

THE CANADIAN PROVINCE of Alberta, with current annual government expenditures nearly equal to Alaska, has established the "Alberta Heritage Savings Trust Fund" funded from 30 per cent of all non-renewable resource revenues.

The preface to the Alberta act states that ". . . it would be improvident to spend all non-renewable resource revenues as they are received . . ." and ". . . it is appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years."

The kind of foresight Alberta has shown is needed in Alaska. Given Alaska's need for a greater degree of financial independence, the establishment of a permanent fund makes good sense in the continuing battle for statehood.

2 plans, 1 fund

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The permanent fund indeed is one of the most pressing priorities before the legislature. The Senate should act promptly to pass the bill.

Anchorage News 5/3/76 p. C

Permanent fund: public extravagance

By JOHN HAVELOCK
(Second of two articles)

ALASKA FORUM

This is the final installment of a two-part Alaska Forum on the proposed permanent fund to be derived from state oil revenues by John Havelock, the state attorney general during the Egan administration.

Some of the support in Juneau for establishing state dedicated funds arises from perfectly laudable sentiment in favor of public thrift. By expressing such overwhelming enthusiasm for these proposals, our legislators assure us both of their own frugality and the hazards down the road for the treasury if we should be so careless as to replace them with others less dedicated to saving our money.

Unfortunately, there is no substitute for not spending money when it comes to thrift.

DEDICATED FUNDS do not save money. They provide for the manner of its use. By tieing the hands of state budget makers, dedicated funds may well create additional pressures for taxes or other revenue measures.

This is the case even when dedicated funds are required to be accumulated. The effect of accumulation is to assign part of the usual appropriation process to a state bank. Each of the proposals for dedicated funds is potentially a proposal to split state government in two.

One of these governments is familiar to me. I help elect its directors and help to kick them out when they run it badly. The directors are politicians. That means they are eager to please. They spend much time communicating with us about what they are doing and try to state it in understandable terms. If we don't control them effectively, we usually have only ourselves to blame. If we become complacent, they spend money foolishly and raise taxes. That usually wakes us up again.

NOW I SEE ANOTHER, less familiar, twin government on the horizon. We won't notice its management problems as much because it won't have to raise our taxes when it spends money foolishly. We don't know who its managers will be. We don't know what policies they will adopt nor is it likely that they will respond to us on a day to day basis. We must accept that what they do for us will be in our best interests — by benefiting some of the people who are going to be around in thirty years. We will get the trickle down, whatever and whenever that may be.

I am told that I can't trust the government I can control so I should invest my heritage in a government of bankers I can't control. There is no logic to this.

Assuming thrift is our purpose, what discussion has there been of alternatives to constitutional amendment?

FOR INSTANCE, if this wealth is such a public embarrassment, what would be wrong with giving it directly to the people on a per capita basis, perhaps by raising the state's minimum exemption on income tax or by a disbursement to school tax payers? If tax rebate plans are seen as discriminating against the very poor, who have an equal share in our commonly owned resources, maybe we could combine tax relief with increases in welfare payments, or through some more equitable per capita distribution.

Since most of us are quite aware that Prudhoe Bay is just the beginning, how about saving by keeping new oil reserves in the ground or by otherwise dampening immediate income growth through slowing the pace of natural resource exploitation? Since the possibility of a real nuclear power cost breakthrough has pretty well faded away, in the long run, the state's wealth may be much safer in the ground than in the hands of a new banking system.

By dedicating a large part (but not all) petroleum income to a special fund, pressure will heighten on the state to meet normal budget requirements through expanding resource exploitation in order to increase usable income from either royalty or taxation.

IF WE ARE TO HAVE a dedicated fund, maybe we should decide what it's for. There are some traditional objects of public investment that bear good return. Our greatest resources are our human resources. By investing in human resources we get the best return on capital.

If the pie is to be split among "builders, businessmen and fishermen," what rationale will control the split? Legislative approval will come from log rolling — the process of combining enough special interests to constitute a majority. The rush for a piece of the investment fund will be a sight to behold next year if the constitution is amended. Who will come in last? J. Q. Public is a safe bet.

It is possible that an Alaska dedicated fund is desirable. But I would be uneasy about following foreign models, such as Social Credit dominated Alberta, where political and economic traditions and the role of government in the economy are quite different. We do have domestic models in a number of the states. Closest to home, the State of Washington has a dedicated fund for education. The State of Texas has endowed its University.

AGREEABLE AS THESE sound, those who wrote our state constitution had the opportunity to observe these models and rejected them.

Considered individually, out of the context of all government needs, an endowment for loans to fishermen, public education, our pioneers, medical research or whatever, will sound like a swell idea. But the job of government is to balance among all these and hundreds of other laudible competing interests. The relative merits of each purpose will change from year to year as new needs arise and old forms of expenditure seem less pertinent.

There is no need to believe we are spendthrift because we spend natural resource dollars. Those who presided over the founding of Alaska knew that revenue from resource development would be necessary to meet the ordinary expenses of government. Because the Congress knew these resources would go to the state treasury and help pay the way for state government, Alaska was granted statehood. The record of congressional debate is clear.

NO ONE CAN DOUBT the superficial charms of dedicated funds — protecting our money from wicked or profligate politicians. Frugality is a great American virtue. But money saved does not go away, it is just spent by somebody else. If we decide to "invest" it in Alaska we have really only shifted the power of control from one group of people to another: from the legislators, the Governor and the executive branch of government, to bankers and borrowers.

Advocacy of dedicated funds has been based on a theory of economic behavior that has great virtue in the home but little relevance when the state itself is both the saver and the banker. It has also been based on a theory concerning the economic future of the state which is, at best, highly speculative. Many people, including the writer, do not believe that Alaska is likely to face a severe economic downturn in any near future resulting from exhaustion of natural resources. Before establishing a new system for the management of public monies, we should ask ourselves, who benefits? Who loses?

The advocates of dedicated funds have not come to grips with the real problems inherent in a dedicated fund, dedicated not to any purpose but to the principle of saving for its own sake. It is a novel enterprise for the state to set up an investment bank, in the absence of very specific needs for capital. Saving and investing "against a rainy day" is a money management policy dedicated to the benefit of a vaguely defined class of people quite different from the present taxpayers and voters of this state.

WE SHOULD ASK OURSELVES, is there a remedy better suited to meet the ills perceived? The constitutional fathers created a powerful budgetary control tool, rarely seen in state government, in the governor's line item veto. If we are truly concerned about legislative fiscal excesses, we should encourage him to use it.

Management tools, also, such as the recently recommended periodic zero-based budget analysis may prove effective. Dedicated funds discourage zero-based analyses and set up powerful vested interests against change in the status quo of benefit distribution.

If you are worried about the temptation of huge bonus bids, receipts can be leveled out over a longer time by allowing bidders to pledge a per cent of the value of the oil — royalty bidding; by putting up smaller tracts for sale — not a billion dollars at a time; by providing for rental bonuses paid over years. There are many ways to assure income at a steady level over many years.

ULTIMATELY, THE CALL that we protect ourselves from the budgetary excesses of the legislature and the governor is a call that we protect ourselves from ourselves. We are asked to do this by removing a restraint on legislative action, the very purpose of which is to encourage legislative fiscal responsibility.

With this restraint removed, we will be offered a smorgasbord of proposals to dedicate revenue to special investment.

Who benefits? Who loses?

ANC Daily News 5/1/76 p. 4

Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or vaious worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meanstime and for what purpose?

IF THE FUND is a permanent endowment fund with no near term disbursal of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a cerious economic decline, who has been assisted by te savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?

ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.

WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaksa? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 99 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet!

There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority of Alaska citizens are concerned about excessive rates of growth.

Reports from the fishermen are that overcapitalization, not undercapitalization is the problem in the private sector. It is in the public sector where investment is needed to build fish stocks.

All this new investment may well have only marginal effects because the "soft" money will push out hard money. Particularly if we disburse loans through the existing banking system, the injection of new capital will tend to drive away outside capital, isolating Alaska from national money markets. That is, people will borrow from the easiest and cheapest source available for the class of risk involved. More conservative private investors will invest elsewhere.

LET US ASSUME that no more oil fields are discovered in Alaska, that the gas line doesn't go, that private investment capital is not empted by Alaska's other bountiful resources in coal, steel, minerals; in short, that the prophets of economic gloom for Alaska are correct. Is it then a sound public fund investment policy to put our money into loans or development prospects that no one else thinks are economic?

Ordinary experience indicates that capital invested in submarginal economic activity, money invested in risks that a prudent investor would not touch, is money down the rathole. Only if capital became truly scarce, a phenomenon, should it occur, likely to be national in scope not Alaskan, would state investment in Alaskan capital markets make sense.

There may be merit in encouraging the diversification of Alaska's economy. If it is to be the case, however, it should be through the identification of a solid economic base, not in specious opportunities pumped up by public fund subsidies.

(Monday: Dedicated funds and public extravagance.)

7/23/77
A Daily News

State challenges El Paso

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — The State of Alaska may be willing to participate in financing of El Paso Natural Gas's proposed all-American pipeline, but not before industry officials "put their money where their mouth is," a cabinet-level official said Friday.

Revenue Commissioner Sterling Gallagher said the administration of Gov. Jay S. Hammond may propose to the Legislature that the state underwrite loan guarantees of between $750 million and $900 million of the debt for construction of El Paso's proposed $8 billion project, but added that "a lot of stipulations will have to be met first."

GALLAGHER outlined the administration's position in a letter earlier this week to Roger C. Altman, an assistant secretary of the treasury for capital markets and debt management.

In his letter, Gallagher said he "believes the state would be willing to guarantee between $750 and $900 million worth of debt for facilities located in Alaska."

Gallagher said the guarantee would be supported by the Permanent Fund, but it would require that 50 per cent of Alaska's oil and gas royalties be placed in the fund as compared to the current level of 25 per cent.

BUT THE INCREASE in the contribution level to the Permanent Fund and authorization for the loan guarantee would have to be approved by the Legislature, Gallagher emphasized.

Gallagher said state loan guarantees "should enhance the quality and reduce the cost of the underlying debt" for construction of El Paso's gasline from Prudhoe Bay to tidewater near Valdez along the route of the trans-Alaska oil pipeline. But he said the prospect for such state participation assumes there will be adequate equity participation by the El Paso pipeline consortium of about six gas transmission companies.

"First and foremost," Gallagher said in an interview, "the El Paso consortium has got to be willing to come up with equity capital for construction of the line."

GALLAGHER SAID El Paso and other partners such as Tenneco and Southern Natural Gas are going to have to put up about 25 per cent equity on the estimated $8 billion cost of the system before the state would consider loan guarantees.

"We're not willing to take more of a risk than the other parties," Gallagher said. "We won't guarantee anything until they put their money where their mouth is."

Until last week, Gallagher said, El Paso and the other firms had balked at taking any of the equity risk, but changed their minds after state officials threatened to end negotiations on state participation.

IN HIS LETTER to Altman, Gallagher said another prerequisite to state participation would be favorable treatment for the state in tariffs on the pipeline and satisfactory resolution of the question of pricing of North Slope gas.

Jim Edenso, deputy revenue commissioner, said state loan guarantees could give the project a "AA or AAA" bond rating and reduce interest rates on borrowed capital from 11.5 per cent to eight per cent.

In return, the state would receive a fee of about three quarters of one per cent on the guarantee. In addition, the guarantee would have to be set aside in a protected account which could earn 15 per cent interest.

BUT BOTH Gallagher and Edenso emphasized a state gas line loan guarantee faced a lot of potential problems as well as months of negotiations before it could be ready for submission to the legislature.

Alaskan Cities Are A Bond Buyer's Delight

Alaska's local governments and state funds are some of the bond market's undervalued credits, in the opinion of John Nuveen and Co., Inc., investment counselors.

"Some investors and analysts have indeed recognized the growing wealth available to the state government," a Nuveen report on Alaska says, "but few appreciate the concurrent growth and development of taxable resources within the boundaries of local governments."

Assessed valuation for Alaska's 31 municipalities has increased between 16 and 30 per cent a year nearly every year since 1970, the study points out. In 1970, the total assessed valuation was $2.3 billion; in 1975, it was $5.3 billion. No figures are given for 1976.

Nuveen gives good ratings to bonds issued by nearly all of the state's local governments with the exception of Nome, where bonds are rated as "fair" securities but have "poor" marketability.

Anchorage, with 44 per cent of the state's population, is the state's commercial and financial center, and its future is directly related to this dominant position, Nuveen says. If the state as a whole experiences growth, so will Anchorage.

"All other cities are susceptible to growth irregularities arising from specific local developments," Nuveen said.

Two basic factors will insure the vitality of Anchorage during the late 1970s, according to the report.

"First, the city's support sector is now highly developed, and is now capable of sustaining itself during slowdowns such as the one anticipated following completion of pipeline construction."

This commercial development is extremely important with regard to the city's future economic stability, says the report. "Once an economy becomes self sustaining, it no longer depends on boom conditions which accompany excessive growth in order to maintain a healthy level of activity."

A second contributing factor is Anchorage's steady expansion as a headquarters for many statewide business operations, including most of the major oil companies.

Atlantic Richfield Co., Union Oil and British Petroleum "would not have erected 10 and 12 story buildings if they did not anticipate future growth in their Alaskan activities," Nuveen points out.

"A $71 million federal building is also under construction, indicating continuing federal presence in Anchorage and in Alaska."

Anchorage is a "growing, well managed, modern municipality with a sound financial base," says the report. By 1980, Anchorage employment is expected to reach 100,000. By 1985, the population should exceed one quarter million.

The joining of **Fairbanks** with the **North Star Borough** "could become the base of better government for both entities," Nuveen says, just as unification of the borough and city of Anchorage in 1975 "was a positive step."

Fairbanks, with the state's second-greatest population, is the gateway to the state's interior and has become a major supply depot for trans-Alaska pipeline construction.

"There is little question that completion of pipeline work will have a negative effect on the Fairbanks-North Star Borough area," Nuveen says. "Although the impact is difficult to assess precisely, it would be incorrect to anticipate a major recession.

"Government work, unrelated to pipeline construction, accounts for city and borough and this factor alone should lend significant stability to employment in the coming years," the report says. In addition, the University of Alaska with its research activities represents a primary employer in the Fairbanks area.

Nearby Tanana Valley agriculture has future potential because the warm summers accompanied by 24 hours of daylight provide excellent growing conditions. Only 4,000 acres are now under cultivation but the valley has a potential of 350,000 cultivated acres, Nuveen says.

Other stable non-pipeline related projects include continuing construction of the $120 million Chena River Floor Control project and the first phase of a $30 million oil refinery at North Pole scheduled to go into operation this fall.

A number of local construction projects, totaling $400 million through 1980, should also lend economic support to the Fairbanks area. These include a new federal building, Bentley Mall, Hickel Mall, a borough library, city garage and major highway construction. Development of the Fairbanks area has broadened its economic base and the economy is becoming self-sustaining.

Oil and gas related construction and development will continue to lend support to the Fairbanks' area economy. A natural gas pipeline will add stimulation if either of the two Alaskan routes are chosen. Continuing oil exploration in National Petroleum Reserve in Alaska (formerly Pet 4) and possible Beaufort sea exploration will be supported from Fairbanks. As northern terminus of the Alaska railroad, the city's position as a major supply point is assured.

Proposed eastward extension of the railroad into Canada also would use Fairbanks as a base and connect the city with the Lower 48.

With the exception of oil, most of Alaska's mineral wealth lies within the interior and Fairbanks is the staging area.

A strong stabilizing factor in the revenue statements of both Fairbanks and the North Star borough is the state aid which accounts for 38 per cent of the borough's revenues and 22 per cent of the city's.

Juneau city and borough has had a stable economy because 59 per cent of the work force is employed by federal, state and local governments.

Plans to construct a new state capital at Willow will have only a modest effect on Juneau, says the Nuveen study.

The gradual nature of such a move would minimize any employment decline because of the trend toward steady expansion in the total number of government employees.

"For the same reason, Juneau has in fact been flourishing over the past five years," Nuveen says, while state government facilities in Anchor[illegible] have grown to exceed Juneau's in size and employment. Approximately 4,300 employees work for the state in Anchorage, compared with 3,300 in Juneau.

"Although the existence of a new capital will slow growth of government employment in Juneau, the effect should resemble the slowdown which occurred during the Anchorage expansion rather than a mass exodus," the investment firm predicts. "The state will continue to use its Juneau facilities."

In addition to its commercial prominence in southeastern Alaska, Juneau is a nerve center for the forestry and fishing industries. With expanded efforts by the state to revitalize salmon production and promote bottom fishing, this sector of Juneau's economy should improve.

Juneau Cold Stroage Co., which processes 5 million pounds of fish a year, anticipates great potential for frozen fish sales to Japan and Russia.

Juneau's assessed valuation has grown over 32 per cent a year for the past three years, says the Nuveen report, while debt has increased at a much slower rate. Current uncertainty over moving the capital could provide an opportunity to purchase Juneau obligation bonds at reduced prices, the firm suggests.

Ketchikan economy is hard to predict, says Nuveen's study, because of the high degree of cyclicality within the forest products in[illegible] restrictive U. S. [illegible]ations.

Currently, Ketchikan is highly de[illegible]pendent on one industry, the Ketch[illegible]kan Pump Co., but Nuveen said [illegible] combination of the new mining de[illegible]velopment, the state's efforts to r[illegible]build the fishing industry and th[illegible] long-term need for forest product[illegible] could lead to a more stable futur[illegible] economy for the Ketchikan-Gatewa[illegible] Borough area.

Federal, state and local gover[illegible]ment, as in all of Alsaka, is a majo[illegible] contributor to the area's employ[illegible]ment st[illegible]ility and is resonsible fo[illegible] 25.8 per cent of local employment.

"Now that Ketchikan Pulp ha[illegible] compromised with the Environme[illegible]tal Protection Agency, the employ[illegible]ment outlook has normalize[illegible] Against this background, one of Ala[illegible]ka's most important mineral disco[illegible]eries has occurred — the U. S. Bor[illegible] Co.'s 100 million ton molybdenu[illegible] discovery. The company plans [illegible] employ 500 workers in the constru[illegible]tion of a $250 million open pit mine.

DAILY NEWS

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Permanent fund: new independence

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2 lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil, as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the $900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of

ALASKA FORUM

(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)

being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

It would be unfair to say that the total expenditure of the $900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employes has blossomed from 5 700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employes.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust "... for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

However, the real problem facing the state is just the opposite extreme — too much is being spent to meet supposed immediate needs by auctioning off non-renewable resources which in some part rightfully belong to future generations.

The supreme arrogance is the supposition that any one administration or legislature has all the answers. The annual allocation of 100 per cent of current non-renewable resource revenues to what are then perceived as priorities hardly gives future governments much to work with. A permanent fund should and can be structured to as to be flexible enough to meet future needs. On the other hand, given the present level of per capita government spending in Alaska, a modest 25 per cent set aside of revenues from one time only mineral development will not hamstring necessary government operations.

THE CANADIAN PROVINCE of Alberta, with current annual government expenditures nearly equal to Alaska, has established the "Alberta Heritage Savings Trust Fund" funded from 30 per cent of all non-renewable resource revenues.

The preface to the Alberta act states that "... it would be improvident to spend all non-renewable resource revenues as they are received ..." and "... it is appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years."

The kind of foresight Alberta has shown is needed in Alaska. Given Alaska's need for a greater degree of financial independence, the establishment of a permanent fund makes good sense in the continuing battle for statehood.

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Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or vaious worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meanstime and for what purpose? Legis.

IF THE FUND is a permanent endowment fund with no near term disbursal of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a cerious economic decline, who has been assisted by te savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?

ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.

WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaksa? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 9 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet!

There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority o Alaska citizens are concerned about excessive rates of growth.

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(Monday: Dedicated funds and public extravagance.)

vs Permanent fund: public extravagance

Field

By JOHN HAVELOCK
(Second of two articles)

ALASKA FORUM

This is the final installment of a two-part Alaska Forum on the proposed permanent fund to be derived from state oil revenues by John Havelock, the state attorney general during the Egan administration.

Some of the support in Juneau for establishing state dedicated funds arises from perfectly laudable sentiment in favor of public thrift. By expressing such overwhelming enthusiasm for these proposals, our legislators assure us both of their own frugality and the hazards down the road for the treasury if we should be so careless as to replace them with others less dedicated to saving our money.

Unfortunately, there is no substitute for not spending money when it comes to thrift.

DEDICATED FUNDS do not save money. They provide for the manner of its use. By tieing the hands of state budget makers, dedicated funds may well create additional pressures for taxes or other revenue measures.

This is the case even when dedicated funds are required to be accumulated. The effect of accumulation is to assign part of the usual appropriation process to a state bank. Each of the proposals for dedicated funds is potentially a proposal to split state government in two.

One of these governments is familiar to me. I help elect its directors and help to kick them out when they run it badly. The directors are politicians. That means they are eager to please. They spend much time communicating with us about what they are doing and try to state it in understandable terms. If we don't control them effectively, we usually have only ourselves to blame. If we become complacent, they spend money foolishly and raise taxes. That usually wakes us up again.

NOW I SEE ANOTHER, less familiar, twin government on the horizon. We won't notice its management problems as much because it won't have to raise our taxes when it spends money foolishly. We don't know who its managers will be. We don't know what policies they will adopt nor is it likely that they will respond to us on a day to day basis. We must accept that what they do for us will be in our best interests — by benefiting some of the people who are going to be around in thirty years. We will get the trickle down, whatever and whenever that may be.

I am told that I can't trust the government I can control so I should invest my heritage in a government of bankers I can't control. There is no logic to this.

Assuming thrift is our purpose, what discussion has there been of alternatives to constitutional amendment?

FOR INSTANCE, if this wealth is such a public embarrassment, what would be wrong with giving it directly to the people on a per capita basis, perhaps by raising the state's minimum exemption on income tax or by a disbursement to school tax payers? If tax rebate plans are seen as discriminating against the very poor, who have an equal share in our commonly owned resources, maybe we could combine tax relief with increases in welfare payments, or through some more equitable per capita distribution.

Since most of us are quite aware that Prudhoe Bay is just the beginning, how about saving by keeping new oil reserves in the ground or by otherwise dampening immediate income growth through slowing the pace of natural resource exploitation? Since the possibility of a real nuclear power cost breakthrough has pretty well faded away, in the long run, the state's wealth may be much safer in the ground than in the hands of a new banking system.

By dedicating a large part (but not all) petroleum income to a special fund, pressure will heighten on the state to meet normal budget requirements through expanding resource exploitation in order to increase usable income from either royalty or taxation.

IF WE ARE TO HAVE a dedicated fund, maybe we should decide what it's for. There are some traditional objects of public investment that bear good return. Our greatest resources are our human resources. By investing in human resources we get the best return on capital.

If the pie is to be split among "builders, businessmen and fishermen," what rationale will control the split? Legislative approval will come from log rolling -- the process of combining enough special interests to constitute a majority. The rush for a piece of the investment fund will be a sight to behold next year if the constitution is amended. Who will come in last? J. Q. Public is a safe bet.

It is possible that an Alaska dedicated fund is desirable. But I would be uneasy about following foreign models, such as Social Credit dominated Alberta, where political and economic traditions and the role of government in the economy are quite different. We do have domestic models in a number of the states. Closest to home, the State of Washington has a dedicated fund for education. The State of Texas has endowed its University.

AGREEABLE AS THESE sound, those who wrote our state constitution had the opportunity to observe these models and rejected them.

Considered individually, out of the context of all government needs, an endowment for loans to fishermen, public education, our pioneers, medical research or whatever, will sound like a swell idea. But the job of government is to balance among all these and hundreds of other laudible competing interests. The relative merits of each purpose will change from year to year as new needs arise and old forms of expenditure seem less pertinent.

There is no need to believe we are spendthrift because we spend natural resource dollars. Those who presided over the founding of Alaska knew that revenue from resource development would be necessary to meet the ordinary expenses of government. Because the Congress knew these resources would go to the state treasury and help pay the way for state government, Alaska was granted statehood. The record of congressional debate is clear.

NO ONE CAN DOUBT the superficial charms of dedicated funds — protecting our money from wicked or profligate politicians. Frugality is a great American virtue. But money saved does not go away, it is just spent by somebody else. If we decide to "invest" it in Alaska we have really only shifted the power of control from one group of people to another: from the legislators, the Governor and the executive branch of government, to bankers and borrowers.

Advocacy of dedicated funds has been based on a theory of economic behavior that has great virtue in the home but little relevance when the state itself is both the saver and the banker. It has also been based on a theory concerning the economic future of the state which is, at best, highly speculative. Many people, including the writer, do not believe that Alaska is likely to face a severe economic downturn in any near future resulting from exhaustion of natural resources. Before establishing a new system for the management of public monies, we should ask ourselves, who benefits? Who loses?

The advocates of dedicated funds have not come to grips with the real problems inherent in a dedicated fund, dedicated not to any purpose but to the principle of saving for its own sake. It is a novel enterprise for the state to set up an investment bank, in the absence of very specific needs for capital. Saving and investing "against a rainy day" is a money management policy dedicated to the benefit of a vaguely defined class of people quite different from the present taxpayers and voters of this state.

WE SHOULD ASK OURSELVES, is there a remedy better suited to meet the ills perceived? The constitutional fathers created a powerful budgetary control tool, rarely seen in state government, in the governor's line item veto. If we are truly concerned about legislative fiscal excesses, we should encourage him to use it.

Management tools, also, such as the recently recommended periodic zero-based budget analysis may prove effective. Dedicated funds discourage zero-based analyses and set up powerful vested interests against change in the status quo of benefit distribution.

If you are worried about the temptation of huge bonus bids, receipts can be leveled out over a longer time by allowing bidders to pledge a per cent of the value of the oil — royalty bidding; by putting up smaller tracts for sale — not a billion dollars at a time; by providing for rental bonuses paid over years. There are many ways to assure income at a steady level over many years.

ULTIMATELY, THE CALL that we protect ourselves from the budgetary excesses of the legislature and the governor is a call that we protect ourselves from ourselves. We are asked to do this by removing a restraint on legislative action, the very purpose of which is to encourage legislative fiscal responsibility.

With this restraint removed, we will be offered a smorgasbord of proposals to dedicate revenue to special investment.

Who benefits? Who loses?

Friedman sees troubles ahead

The U.S. economy has a rosy future for the next year or two, but could hit the skids just in time to hamper any bid for re - election by President Jimmy Carter, Nobel prize - winning economist Milton Friedman told an Anchorage audience Thursday.

Friedman also warned that growing government interference in the national economy could eventually destroy "both our prosperity and our freedom," and he said Alaska's propensity for governmental red tape and ever - growing budgets are symptoms of the national problem.

Friedman

THE CONSERVATIVE, outspoken economist told a blue - ribbon audience which included Gov. Jay S. Hammond, state cabinet officials and legislators as well as state and local businessmen, that Alaska may see its oil - based economy run into trouble soon.

"You will be making a great mistake if you think oil prices will be this high for the indefinite future," Friedman said. "The

(Continued on page 2)

OPEC (Organization of Petroleum Exporting Countries) cartel will break."

Friedman was brought to the state by Alaska Pacific Bank, and he spoke Thursday to the bank's 1977 Conference on Alaska Business Issues. Today, he is scheduled to visit Prudhoe Bay and the trans-Alaska oil pipeline.

In a wide - ranging speech at the conference's luncheon banquet, Friedman said there is "no other state in the country as socialist as Alaska . . . it has been unable to resist the temptation to spend the cornucopia flowing from the North Slope."

ANCHORAGE
DAILY NEWS

Lawrence Fanning
Editor and Publisher, 1967 to 1971

Katherine Fanning — Editor and Publisher
Frederick W. Field — President

Stan Abbott — Executive Editor
Tom Gibboney — Managing Editor

Alaska's Only Morning Newspaper
Founded in 1946 by Norman C. Brown

Single most important legis action
HB 324
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special purpose

Permanent fund: new independence

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2 lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the $900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

ALASKA FORUM

(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)

It would be unfair to say that the total expenditure of the $900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employes has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employes.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust ". . . for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39: a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment program can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

However, the real problem facing the state is just the opposite extreme — too much is being spent to meet supposed immediate needs by auctioning off non-renewable resources which in some part rightfully belong to future generations.

The supreme arrogance is the supposition that any one administration or legislature has all the answers. The annual allocation of 100 per cent of current non-renewable resource revenues to what are then perceived as priorities hardly give future governments much to work with. A permanent fund should and can be structured to as to be flexible enough to meet future needs. On the other hand, given the present level of per capita government spending in Alaska, a modest 25 per cent set aside of revenues from one time only mineral development will not hamstring necessary government operations.

THE CANADIAN PROVINCE of Alberta, with current annual government expenditures nearly equal to Alaska, has established the "Alberta Heritage Savings Trust Fund" funded from 30 per cent of all non-renewable resource revenues.

The preface to the Alberta act states that ". . . it would be improvident to spend all non-renewable resource revenues as they are received . . ." and ". . . it is appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years."

The kind of foresight Alberta has shown is needed in Alaska. Given Alaska's need for a greater degree of financial independence, the establishment of a permanent fund makes good sense in the continuing battle for statehood.

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Our views:

A future fund

As lawmakers enter the traditional end-of-the-session crunch in Juneau with major legislation still to be finalized, one measure deserves priority treatment: the permanent fund.

The legislation proposes, by constitutional amendment, that a lasting fund be established from some portion of the state's oil revenues. It would be a fund for the future, a permanent fund.

How would it work?

The terms are still being debated and the precise guidelines yet to be drawn, but under one bill endorsed by the State House and the Hammond administration, 25 per cent of all oil revenues collected by the state would go into a permanent fund. This includes 25 per cent of all oil taxes, bonuses and royalties.

Such a fund would total roughly $3 billion in 10 years, earning more than $100 million annually in interest and return on interest.

This kind of permanent fund would do three important things.

—By building a permanent fund from looming oil revenues, a check could be placed on state spending. No longer would every new dollar in the state treasury automatically be earmarked for social programs, capital projects and new state payrolls.

—Instead, the fund would be an effort to redirect the manner in which public revenues are used to satisfy public needs. It would allow Alaskans to directly share from the oil revenues because the permanent fund would offer loans to businessmen, builders and fishermen. This would pump money to Alaskans who, in turn, would pump it back into the state's economic mainstream. The state would be investing in itself.

—Most importantly, the permanent fund addresses that day when the oil runs out. To be sure, oil is a non-renewable resource; it won't last forever. Even Prudhoe Bay's profitability, for example, is projected to have a life of only about 30 years. Since the state's economy cannot always be geared to oil, the alternative clearly is diversification, building an economic base which spans numerous renewable resources and less wasteful industries.

The permanent fund holds a lasting promise of tomorrow. With money available when the oil rush has ended, the state's service industries, contractors and merchants won't be overly strapped.

The goal of Alaska's proposed permanent fund may be better understood by borrowing from the thinking which went into naming a similar program in Alberta, B.C. There, such a program is called the Alberta Heritage Trust Fund.

The permanent fund indeed would be a trust, held inviolate for prescribed uses. It also would have much to offer the state's heritage for it would preserve for future Alaskans some of the benefits of oil wealth.

(Wednesday: A closer look at the politics of the permanent fund.)

Other views

The dictionary defines it better, and doesn't need a law to do the job.

IT IS NOT that the intentions of this ordinance are bad, evil or totally without merit. It is not that those who toiled over its tortured definitions and structured explanations did not have the good of the freedom that would allow them to be creative or unimaginative, brilliant or foolish, flamboyant or sedate. The public is not so stupid that it cannot read the character of an enterprise by the quality of its advertising designs.

And such judgments require no red tape, rules or permits.

A Truckload Of Sand

WHEN THE STATE supervisors were on strike last month, the Alaska Department of Highways said it was sorry, but that during the walkout there just wou'dn't be any possibility that roadwork could be done.

What that mainly meant was that no potholes would be filled for the duration.

Well, that was understandable.

But the strike ended April 15.

In the ensuing three weeks, still no potholes have been filled, to speak of. At least there are more unfilled than filled.

It's no easy task, we know. There are all sorts of logistical problems to contend with, no doubt.

But a few truckloads of sand and a few men with shovels might at least cut down on the wear and tear on motorists' tires and vehicles until the department is fully geared up for asphalt and paving.

What Others Say

From The Fairbanks News-Miner

THE LEADING possibility for economic stability for Alaska is the creation of a permanent fund which would be used to sock away a percentage of the state's oil receipts much like a savings account. The interest derived from the investment of the fund would be used to sustain certain state programs that would benefit all Alaskans.

If the state saves 25 per cent of its oil receipts for 10 years, the account will total $3 billion after the first decade. The three billion dollars could produce $100 million per year for injecting into other economic enterprises in the state.

What sort of enterprises? The fund could help put a viable state agricultural industry on its feet. It could provide loans to Alaskans who want to build their own homes. It could also be utilized in revitalizing the state's depleted fishing industry.

ANOTHER exciting aspect of the permanent fund would be its effect on state spending. By mandating that a portion of the state's wealth being derived from non-renewable resources be sunk into the permanent fund, Alaskans would avoid careless spending of those revenues, at least. Chances are excellent the constraints of putting regular deposits into a state savings account would have a sobering influence on other state programs as well.

The permanent fund offers Alaska an opportunity to invest in itself, preserving forever the bonanza of our non-renewable resources in a way that will allow permanent improvements in the condition of our renewable resources.

From The News American, Baltimore, Md.

THE ATTACKS on nuclear energy have spawned the wry witticism that electricity itself would still be under attack if the electric chair had been invented ahead of the light bulb. Certainly the number of otherwise rational people who cannot separate in their minds the peaceful atom from the terrible mushroom cloud over Hiroshima is surprisingly large.

It is a little-remembered fact that electricity was widely assailed as an evil genie by the fearful when it was first introduced as a source of household lighting in the early 1880s. Critics charged that this mysterious and invisible "fluid" carried in copper wires would burn the cities down. Some insurance companies refused to supply fire insurance for any home wired for the outrageous stuff.

about how to minister to deserving Democrats in the event he is elected. The Democrats do have a 50-50 chance of winning the White House this year.

In the wake of last week's tearful wake of Sen. Hubert Humphrey, should not the man with peanut dust on his jeans think about this senior Democrat as a possible secretary of state? Lord, it's best to think something good about old H.H.H., when he's up or down, and now he's just sideways.

Humphrey has not turned his presidential musings all to blackness. There is a sliver of daylight at the end of his seemingly interminable tunnel. But the clock ticks away and Jimmy's smile grows broader, and the Democrats really don't want a family fight this year. Just ask chairman Robert Strauss and he'll tell you how he loves all factions to death.

SO HUMPHREY will very likely be in his fifth campaign for the Senate next fall. He's run plenty since he first competed for public office in 1943 (he lost then). And after he is reelected in Minnesota, a fact as certain as the soybean harvest, H.H.H. will want to become Senate majority leader. And all would wish him well, by golly.

Whether Carter or President Ford wins, there must be a change at the State Department; and if Carter wins, wouldn't Humphrey as the new secretary of state amount to a striking change?

To begin, Humphrey would be an exuberant secretary and the sunshine of America would follow him around the world. Gloom and gallows humor would go out of style at State. H.H.H. would try to bathe the globe with goodwill.

Humphrey would also be less devious than the present occupant of diplomacy's big chair. The Minnesota Flash would have an awful time being evenhanded in the Middle East, but maybe he'd learn. In any case, Humphrey has always been known for loquaciousness, not ambiguity, and the world's diplomats would get a kick out of his direct manner.

NEXT, NO question that Humphrey would raise morale at State. The present manager has waved his arms in anger, scolded underlings with harsh words and crippled careers. Humphrey might wear people out, but they are carried away laughing.

Then, Humphrey appears to

"Independent in All Things . . . Neutral in None"

FAIRBANKS
Daily News-Miner

Monday, May 3, 1976

Editorials . . . Comment

Permanent fund?

Every year a number of good ideas get lost in the final days of legislative battle in Juneau. The permanent fund bill is one of the more important of these innocent bystanders that appear threatened this year.

Supporters of the permanent fund seek to force a certain percentage of the state's one-time financial windfalls, such as oil development income, into a place where it will be free from the hands of shortsighted politicians looking to fill annual budget holes, and where it can earn more income to develop the state's more stable resources.

The $900 million the state received for its 1969 Prudhoe Bay oil lease sale was put to this use at first, but it became too great a temptation for politicians scraping by on the state's regular income.

State leaders began dipping into the $900 million with an eye to gradually expanding the government to the level it would attain when oil production began pumping hundreds of millions of dollars a year into the state treasury. Soon the oil lease bankroll was paying nearly half the state's annual operating costs, and the trans-Alaska pipeline delays combined with the rapid expansion to run the $900 million dry long before the oil money began to come in, forcing the state last year to adopt the special oil reserves tax which is basically an advance on our future oil earnings.

On an even longer scale, our more far-sighted state leaders realize that the huge Prudhoe Bay field won't pump oil forever, and at least some of its earnings should be retained after the rest is gone. Chances are slim that another Prudhoe Bay will be discovered on state land, oil companies drilled almost three times as many North Slope exploratory wells last year alone as were drilled in all the years before the Prudhoe Bay discovery, with little to show for them.

Alaska's other economic mainstays, mining, timber, fishing, tourism and agriculture, are not the near-bottomless tax resource that the oil industry is. Some will need massive infusions of state funds to get them to the point where they will contribute substantially to our state's economy.

A recent economic forecast by the University of Alaska's Institute of Social, Economic and Government Research (ISEGR) predicts Alaska's non-oil resource industries will not reach great levels by even 1990.

"The real output of Alaska's fishing industry is projected to expand at just one per

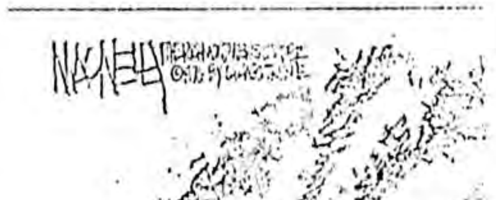
(continued on page 2)

New bo

"The Secret Conversations of Henry Kissinger," a book that is banned in Israel but now available in the United States, contains many surprises — including the Kissinger-attributed chit-chat that Soviet Deputy Premier Leonid Smirov and Defense Minister Andrei Grechko (who died last Monday) are the only Soviet personalities he admires.

Important Israeli journalist Matti Golan, who wrote the extraordinarily authoritative book, accuses Mr. Kissinger of being as elusive as a snowflake and of having convictions just as perishable.

Golan does not question Mr. Kissinger's negotiating ability. He marvels at this and calls it literally astounding. He describes Mr. Kissinger's intelligence and his knowledge of history similarly. But Golan states that apparently Mr. Kissinger has been reading his own fan mail.



Letters

page 2
(continued from page 1)

reach great levels by even 1990.

"The real output of Alaska's fishing industry is projected to expand at just one per cent a year," the ISEGR report states. "Agriculture and nonpetroleum mining....may be of local importance, but their impact on the total state economy is likely to be quite minor."

The report says the timber industry may nearly double its output by 1990, but its growth rate will drop to 2.5 per cent per year after that, and "by 1990, the industry is expected to be approaching its maximum long-run sustainable yield."

The permanent fund was to have been established by a bill adopted by the legislature last year, but the governor vetoed the bill when advised by the attorney general that the state constitution forbids a permanent fund.

That legal opinion is widely debated, but the governor introduced a joint resolution this year for a constitutional amendment creating the permanent fund, with the voters approving it in this year's elections.

The resolution easily passed the House, as the bill did last year, but in the Senate it was assigned to three committees and has been progressing rather slowly. With the final days of the legislative session coming, it has been greatly amended by one committee and appears to be headed toward a bitter free conference fight if it ever emerges from the Senate at all. House leaders say the resolution is a top priority item in their strategy this year.

We hope the legislature, in its annual end-of-session tussle, can find something else to fight over and will approve Governor Hammond's resolution in essence.

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Letters to the Ed

Against rate hike

P.O. Box 80507
College, Alaska 99701
April 15, 1976

Golden Valley Electric Assoc.
758 Ilinois
Fairbanks Alaska 99701

Dear Sirs:

In examining the proposed rate increase as outlined in your Golden Valley Highlines paper I note that again the benefit of lower rates go to the high consumer.

To me this approach is completely unrealistic. Why should a person using only 100 kw have to pay $.10 per hour and the over 1200 kw users get their electricity for $.0375 rate? In other words the more you use the cheaper it gets.

In these days of power shortages it would seem prudent to encourage conservation. What better method than the more you use the more you pay?

The surcharge is a result of nothing more than unplanned for pipeline impact, i.e. hooking up more customers than the system could support and passing the increased costs on to a lot of old and anti-pipeline residents.

I suggest you structure your increased electric rates in the directions of the high consumers, where it belongs, instead of at the small home owner who also is a small consumer.

I would also suggest that GVEA members stop fighting the surcharge as I am sure everyone knows the cost of everything has gone up especially in super inflation Fairbanks. A look into the management structure and a change in rate policy would provide more help for the low consumer.

Thomas J. Classen

Rescue situation

702 24th Ave.
Fairbanks, AK
April 1, 1976

Dear Editor:

I am writing this in hopes that someone will do something about the rescue situation in Alaska.

It seems that everyone depends on the Elmendorf helicopters to do the rescuing up here.

In the case of the five snowmobilers, no one else could do a thing. The state police informed us that Elmendorf handled everything and that it was really too bad that there was no other rescue operations here.

Friends of the missing men had to take it upon themselves to try to save these men.

How can this be? Is there so little trainin... that no... snowmobil... organized?

One of the ... before the ... "find" them. ... happened if ... aircraft pilot ... allowed to ... helicopter to ... where three ... Instead, this ... the ground w... went blindly ... "looking" for ...

Pipeline i... blamed for ... can we blame ... operations on ... doubt that ver...

It's up to ... something. I... state police ha... each town has ... squad. Are t... here that care ... are native or h... for six months ... and something ... save people w... trouble.

When you c... and get told "... we can" and ... hardly anythin... makes you ma...

Just once you ... a friend that ... can't find your ... out there i... somewhere". T... the faces when ... ones are brou... could have been ... place.

As Mr. Lest... letter to the e... 1976, why can'... kind of com... people in the ... kind of situati... again?

Why can't the... means of r... Elmendorf?

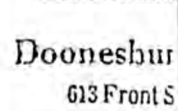
Jean A. Halla...

Doonesbur...

613 Front S...

Dear Editor:

Yes! Let's hav... 'Doonesbury' in ...



The Contin... chronic gunpo... is rapidly be... large shipmen... from the West...

EDITORIAL PAGE

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Page 4 Wednesday, October 13, 1976

Cause For Concern

WE ARE ADVISED that we conferred too much power on the state's Investment Advisory Board last week when we described its members as key figures in the handling of billions of dollars of public funds, if the voters approve the idea of creating a permanent fund Nov. 2.

We have been told by two state officials that the advisory board will have no such powers. If the permanent fund proposal is approved, the provisions for administering it must be made by the legislators after they convene at Juneau next January.

Consequently, it appears that our concern was misdirected. Instead of the advisory committee, we should be concerned with the agency that is to be created in the next legislature.

GREAT CONCERN is appropriate, whether it involves the Investment Advisory Board or some other agency. The proposal on the ballot is that 25 per cent of the state's oil, gas and mineral revenues be set aside in a permanent fund which the legislature could not use for appropriations. The fund would be for investment in income - producing ventures which are to be specifically designated by law.

Even though this may be the greatest idea in modern times and it is hoped will augur the day when Alaskans have a government supported by the equivalent to an endowment, it might also be a monster with insidious consequences. The fund will be so huge that it could, and probably would, dominate this state. It could even control the destiny of major national enterprises.

A BILLION DOLLARS in oil royalties will start flowing into the state treasury next year when production from Prudhoe Bay begins. This annual revenue is expected to double in a short time. There are indications that the royalties will soar higher as more discoveries are made and Alaska becomes the biggest domestic source for the nation's petroleum supplies.

Such huge numbers mean that the proposed permanent fund would also be huge. Estimates show it would be two billion dollars in less than 10 years. A fund of that size could control the entire state economy. Whoever controls the money could become the power center of the state.

SOME SUBJECTS that are worthy of public concern include those noted by Thomas Kelly in The Anchorage Times last Sunday. He cited the unanimity among politicians as unusual and suggested that the motivating factors behind that unanimity should be studied.

Kelly mentioned that some politicians see the permanent fund as a way to put big money in a deep freeze so it won't be available for building a new state capital. Others may consider it a means of stopping economic development. Still others may see it as a power center from which they could control the lifestyle of the state, its economy and its politics.

We have heard none of these possibilities discussed publicly. But they should be.

IT MAY BE TRUE that we zeroed in wrongfully on the Investment Advisory Committee as the agency that would handle the fund. But the error is only that of a bowler who rolls the ball down the wrong alley.

It is probably inevitable that the governor will appoint the members of whatever agency the law provides for administering the multi - billion - dollar fund and he could, if he wished, name the same personalities already named for the advisory committee. It would be the governor's choice.

The danger is that the absolute power that would be created in connection with the fund could corrupt the state administration.

Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Andrus Delays Cook Inlet Sale

By MARK PANITCH
Washington Correspondent

WASHINGTON—The Interior Department announced late Monday that an outer continental shelf (OCS) oil and gas lease sale in lower Cook Inlet planned for Feb. 23 has been taken off the OCS leasing schedule.

Postponement was reported today by a coalition of Alaska natives, fishermen and conservationists who had filed suit in U.S. District Court to block the sale.

Interior Secretary Cecil Andrus said he wanted 90 days to "think about" the sale before deciding to reschedule it for 1977 or put it off until next year or indefinitely.

Andrus, Interior officials said, last Friday received a thorough briefing on the environmental and economic aspects of the proposed sale.

Lawyers for the natives and conservation groups challenging the sale were also reportedly in contact with high Interior officials late last week.

Following the briefing session, Andrus reportedly told an aide he needed more time to consider all the issues before making a decision.

The lawsuit was filed by the village of English Bay south of Homer, the Alaska Conservation Society, Friends of the Earth and Trustees for Alaska.

The proposed sale area, inside the 30 to 60 mile rectangle between Aalgin Island and the Barren Islands, borders the Kachemak Bay area, which the state leased for oil and gas exploration and then bought back last year following a lawsuit and political campaign by local fishermen.

Wholesale fish landings from the proposed sale area were valued at $11.2 million, according to court papers.

The sale would have included 120 tracts covering 683,000 acres.

Parr's bill would charge the OCS impact to oil industry

NM 3/1/77

JUNEAU (AP)—Legislation to force the oil industry to pay the cost of offshore development impact on Alaska coastal communities would save taxpayers millions of dollars, Rep. Charlie Parr said Monday.

"It is my belief that Alaska taxpayers should not bear the impact costs involved in OCS production so that persons in other parts of the country may continue to run their air conditioners, drive their cars 70 miles per hour or waste heating oil because of inadequate insulation in their houses," Parr, D-Fairbanks, told the House Community and Regional Affairs Committee.

Parr's commente came as the committee conducted its first hearing on Parr's bill (HB 219) to allow the state to require oil companies developing OCS territory to purchase building permits for their onshore facilities.

The money from the permits would directly compensate communities and the state for onshore impact costs resulting from OCS development.

The President's Office of Management and Budget has estimated the impact cost on Alaska for offshore development through 1985 at $680 million, Parr said, while the state's Department of Community and Regional Affairs has set the cost at somewhere over $400 million.

A study conducted by the state last year concluded that costs associated with the leasing program would mean an additional $300 tax burden for each Alaska resident annually, Parr said.

"No legislation so far passed by Congress or envisioned, will compensate the state on this order of magnitude," Parr said.

The U.S. Department of Interior has scheduled several lease sales off Alaska's shores during the next few years, and the Supreme Court has ruled that all of the land beyond the three-mile limit belongs to the federal government.

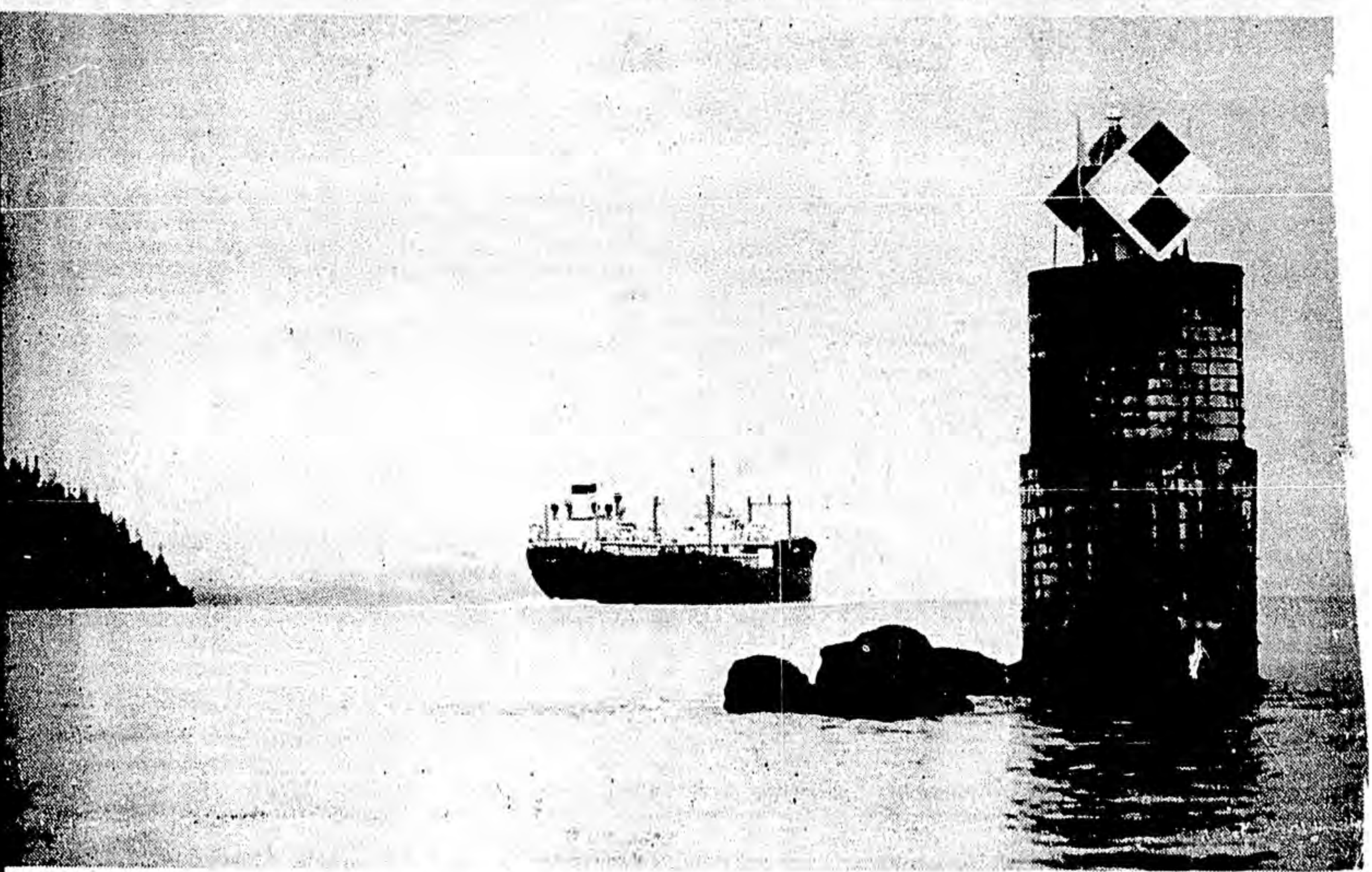
"This means that any revenues—severance taxes, royalties or other—will go to the federal government," Parr said. "There is no provision for the state to collect any revenue from this activity."

Parr's bill would set up a formula where the impact cost is estimated by multiplying the anticipated population increase by the per capita costs of state and local government.

The development revenue, such as property taxes for onshore facilities and income taxes from residents working on development projects, then would be subtracted from the impact cost to get the fee for a shore facility construction project.

Parr said his bill was "not meant as a punitive measure against the oil cmmpanies." He said the companies simply will pass on the cost to the consumer.

Oil industry lobbyists did not testify Monday, but committee Chairman Lisa Rudd, D-Anchorage, said additional hearings would be scheduled next week to hear further testimony.



Tanker passes through Valdez Narrows during anchorage test voyage in 1974.

TAPS fleet shapes up

By ROSEMARY SHINOHARA
Daily News Staff Writer
2nd of a series

.S. Sen. Ted Kennedy has gotten into the act, one Alaska official jokes, "I'm not worried more."

ut though Congressional leaders, including nedy, are looking with renewed vigor into the the Coast Guard has done at setting standar- or U.S. tankers, it's already too late to make or changes in the rules before the TAPS fleet s into operation.

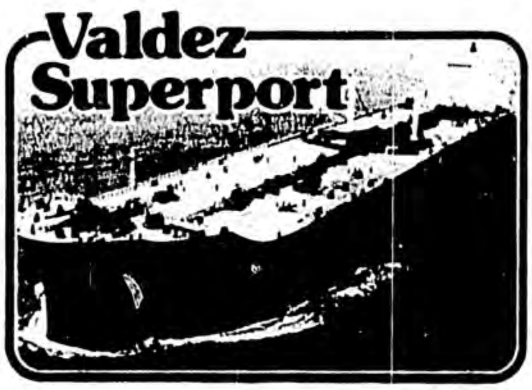
HE TAPS — for trans - Alaska pipeline — s are already being assigned, and should in hauling oil from Valdez south sometime r mid - August of this year.

he 36 tankers destined for the trade include e in the lower size range that were added n it became obvious that the Panama Canal e would be needed because West Coast ems are not prepared to handle all of ka's oil. The canal cannot handle large s.

Congress and the President decide to allow th Slope crude to go to Japan under some sort ade arrangement, foreign tankers could be d, some officials believe.

HE ENTIRE "mix" of the fleet could be nged.

t as it presently stands, the projected fleet des 36 ships, among them two Seatrain vessels not assigned to any North Slope producers.



Only 10 of the 36 have either double hulls or double bottoms. Less than half meet international standards set in 1973 for separating ballast water from oil cargoes to prevent the discharge of oily water into the oceans.

BUT THE FLEET is newer than the average tanker in U.S. trade. The average age of U.S. tankers is 18 years, while the oldest ship in the TAPS fleet was built 14 years ago, and many of the ships are still not out of the shipyards.

There are supertankers among them, but not super - supertankers. The biggest ship projected for the fleet is 225,000 deadweight tons, less than half the size of the Japanese Globtik Tokyo. The smallest are 62,000 deadweight tons.

The state administration is vehement in i position that the federal government has failed promise to provide adequate tanker safety an environmental standards.

YET INDUSTRY spokesmen and the Coas Guard maintain that the benefits of double bot toms, which both protect oil tanks in case o groundings and provide space to separate ballas water from oily cargo, have not been proven.

"It's a highly complex and highly controve sial area," Rear Adm. John B. Hayes of Junea said in an interview. "The answers are not clea cut. Double bottoms provide no protection in the case of collisions, Hayes said. In certain cases, they do prevent oil spills when a tanker bottom hits ground.

"The crux of the problem is that the only way to maximize protection is with a full double hull (covering both sides and bottom)," he said. And to take already - built tankers and fit them with double hulls is a costly proposition.

A REPRESENTATIVE of Gov. Jay S. Hammond said in testimony to a Congressional hearing earlier this month that the state believes double bottom or double hull tankers are required to meet the promise that the Department of Interior Secretary made concerning tanker safety when the Alaska Pipeline Act was before Congress.

(Continued on Page 5)

Many systems available for safe transport of oil

Safety systems proposed for tankers run the gamut of very expensive modifications to the whole tanker, to the addition of a $40,000 signal receiver.

Here is an explanation of tanker terms:

—**"Ballast"** is the seawater a tanker takes on after it unloads its oil to ensure that the ship is low enough in the water, among other things. In the past, the practice was to load the seawater into the same tanks that had held oil. The ballast water, mixed with the remains of the oil, was then emptied.

With improved loading methods, most of the oil that mixes with the water is now able to be retained in the tank, and added to the next load of oil.

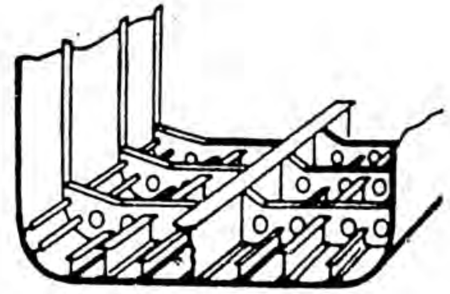
But completely separating the oil from the water by storing them in different areas takes care of the problem altogether. Such an arrangement is called "segregated ballast."

—**"Double bottoms"** are a form of segregated ballast. The space between the outer and inner shells of a double bottom tanker can be used for the ballast, and the extra bottom also protects the ship when it runs aground.

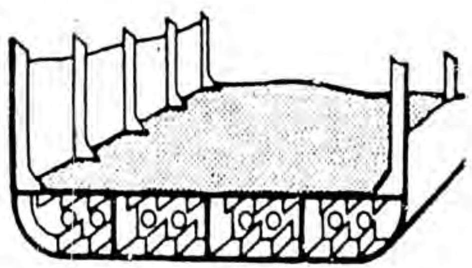
—**"Double hulls"** also allow space for segregated ballast, with an extra shell on the sides as well as the bottom of the tanker. Double hulls protect against collisions and rammings.

—**"Defensive space"** requirements call for separate tanks within the cargo area. In case of a collision or grounding, less oil might be spilled.

—**"Gas inerting systems** are designed to make it less likely that flammable cargoes such as crude oil will explode. Inerting systems reduce the oxygen level by displacing oxygen with inert gas, normally exhaust gas from the ship's engines. Without the safeguard, the oil could potentially ignite during such operations as loading and discharging.



Single bottom



Double bottom

—**Collision avoidance systems** are electronic devices to alert ship's officers to the presence of an object with which the vessel may collide.

—**Loran-C** is a sophisticated navigation signal system with transmitting stations ultimately planned for all waters in the U.S. The system is used by fishermen to site their fishing grounds, as well as by oil tankers.

•TAPS fleet takes shape

Lineup of tankers in the Alaska trade

Owner	Dead-weight tons	No. of ships	Year built	IMCO seg. ballast	1976 defensive space rule	Double hull, bottom	Inert gas	Collision avoidance system
ARCO	120,000	3	73-75	No	No	No	No	Yes
	150,000	2	77-79	Yes	Yes	D.B.	Yes	Yes
CHEVRON	70,000	3	71-72	No	No	No	No	No
EXXON	70,000	2	65-66	No	No	No	No	No
	76,000	3	69-70	No	No	No	No	No
	165,000	2	76-79	Yes	No	No	Yes	Yes
	100,000	1	62	No	No	No	No	No
MOBIL	130,000	1	72	No	No	No	Yes	No
SHELL	188,500	2	77-78	Yes	Yes	D.B.	Yes	Yes
SOHIO	80,000	2	70-71	No	No	No	No	No
	120,000	2	76-77	Yes	Yes	D.H.	Yes	Yes
	165,000	4	76-79	Yes	No	No	Yes	Yes
	90,000	4	76-78	Yes	Yes	D.B.	No	Yes
	72,000	1	72	No	No	No	No	No
	62,000	2	70	No	No	No	No	No
Unassigned Seatrain Vessels	225,000	2	75-77	No	No	No	Yes	Yes
TOTALS	4.25 mil.	36		16	10	10	15	21

(Continued from Page 1)

Realistically, that standard is beyond the reach of the TAPS fleet. But the state officials still hope that within the first couple years of trade, rules requiring all U.S. tankers destined for Alaska to have segregated ballast capacity will be made.

Currently pending is a "proposed Coast Guard rule calling for the "retrofit" of tankers without segregated ballast systems.

WITH CONGRESSIONAL interest at a peak, state officials feel the timing is right.

The newest tankers in the fleet are already required to have segregated ballast tanks under Coast Guard regulations of Jan. 8, 1976. The regulations adopted were proposed by the Inter - Governmental Maritime Consultative Organization in 1973.

Twenty of the 36 tankers escaped those regulations, however, because they were built or under contract before the rules were issued.

All of the ships are now required to have equipment that will enable them to tie into a sophisticated Coast Guard navigation system called Loran-C. The signal system covers the entire U.S. and Canadian West Coast.

So far, 21 of the 36 ships are equipped with collision avoidance systems. The price for installing such a system is about $100,000, according to a state consultant, and ship owners still have time to comply with the law.

Monday: Enter the Port of Vald–

Conflict-of-interest charges

Rep. Beirne can't be prosecuted

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU (AP)—A state lawmaker cannot be prosecuted under Alaska's conflict of interest law for sponsoring self-serving legislation, the attorney general's office says.

In a legal memorandum released Monday, Atty. Gen. Avrum Gross said the Alaska Constitution "insulates" lawmakers from prosecution in connection with legislative actions despite provisions of the state's conflict of interest law.

The decision ruled out any prospect for charges being brought against Rep. Mike Beirne, R-Anchorage, in connection with two resolutions he is sponsoring to repeal regulations which are causing him financial problems.

But in concluding that Beirne could not be prosecuted, the attorney general's office emphasized it was not ruling on whether Beirne was involved in a conflict of interest, and threw the simmering issue into the lap of the House leadership.

"If the legislature itself were to determine that a member was involved in improper conduct of any nature, it is free to take such action as it deems proper, including the possibility of censure," said the legal memo.

The 11-page memorandum was prepared by Asst. Atty. Gen. Pat Gullufsen at the request of Asst. Atty. Gen. Dan Hickey, chief of the Department of Law's Criminal Division.

Hickey said he wanted an "assessment of the actions of Representative M.F. Beirne in sponsoring Senate Concurrent Resolutions Nos. 13 and 14 as they relate to possible criminal prosecution under" the state's conflict of interest law.

The resolutions in question would repeal Department of Community and Regional Affairs regulations under which the state has challenged $312,000 in revenue sharing paid to Beirne for the trouble-plagued Lake Otis Clinic project he is trying to build in Anchorage.

The memorandum said it was clear that the resolutions both originated with Beirne and would benefit him directly.

It said Beirne has "publicly acknowledged that the resolutions are his," and concluded that they "would go a long way, if not all the way, towards resolving the dispute between CRA and Lake Otis Clinic— Beirne in favor of Beirne—and as a consequence entitle Lake Otis Clinic to just about all it wants."

But in researching the case, Gullufsen wrote that the state conflict of interest law, which would appear to prohibit such acts, was in conflict with the state Constitution.

The conflict of interest law provides that "no public official may use his offiical position or office for the primary purpose of obtaining financial gain for himself . . . or business with which he is associated or owns stock."

But the memorandum added that "the statute, if applied to acts by legislators including the introduction of bills or resolutions, creates immediate and difficult problems of proof."

"The key phrase in the act is 'primary purpose,' " the memorandum said, noting that many lawmakers rightly introduce legislation in connection with their own fields of business.

The memorandum assumed that term primary purpose was used in the act in "an effort to distinguish the siutation where the real purpose of a legislator is purely to benefit himself as opposed to the situation where he will only incidentally benefit from an official action."

Concluding that the issue boiled down to the always difficult to prove question of motive, the memorandum said application of the conflict of interest law to the sponsorship of legislation would create "a vast grey area in which legislators are going to be afraid to tread."

"The result will be that, whether prosecution is intiated or not, legislators will be very loath to get involved in areas which may affect them, which is going to mean that out of fear of prosecution the public may lose the benefit of those most knowledgeable in particular legislative fields," the memorandum said.

Probably because of such fears, the memorandum added, the constitution was drafted to include language that "legislators may not be held to answer before any other tribunal for any statement made in the exercise of their duties while the legislature is in session."

The memorandum acknowledged that "arguably, a resolution (like Beirne is sponsoring) would not be a protected statement."

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continued on page 2

Economist stuns gas line panel

By PAUL NUSSBAUM
Our Juneau Bureau Chief

[redacted] Alaska economist Wednesday splashed cold water on hopes for a trans - Alaska natural gas pipeline and said state efforts to influence the gas route decision were futile and motivated by politics.

In the most spirited testimony in the three-day-old hearings on proposed royalty natural gas contracts, economist Dr. Arlon Tussing told state legislators "there is nothing the state can do to advance a trans - Alaska pipeline within the U.S. political system.

"THERE IS no chance for an El Paso line as long as there is a chance for a trans - Canada line, and there is nothing that any of the purchasers or the state can do in that respect."

Gov. Jay S. Hammond's administration is seeking legislative approval of three contracts which would sell the state's one - eighth share of Prudhoe Bay natural gas to a trio of gas transmission companies in exchange for their support of an all - Alaska gas pipeline. El Paso Natural Gas Co. proposed to build an 800 - mile line through the state roughly parallel to the trans - Alaska oil pipeline.

Tussing, who served as chief economist for the U.S. Senate's national fuels and energy policy study, predicted a trans - Canada route proposed by Arctic Natural Gas Co. would win approval from the Federal Power Commission and the President. But Tussing said internal Canadian problems would make an Alaska Highway route similar to one proposed by Northwest Pipeline Corp. the most likely eventual route taken by the Prudhoe Bay gas.

TUSSING characterized state efforts to win support for an all - Alaska gas pipeline as political activity aimed primarily at keeping state residents happy and misinformed.

"Suppose you were the governor of Alaska and were under assault from the Anchorage Times, OMAR, and the Anchorage business community for not giving full support to El Paso, and you were also convinced that El Paso had little chance ... it would be an astute political move to go ahead and call everyone's bluff.

Dr. Arlon Tussing

"The governor could come back to the legislature with contracts that don't mean anything ... then where does the political finger point? You guys bear the onus then ... If you didn't pass the contracts, you would be characterized as the ones who defeated the trans - Alaska gas pipeline.

"IF THEY DID pass, this hypothetical governor could then show he demonstrated exceptional leadership, that he did everything he could and more than he could have been expected to do, and managed to carry along those legislators who were going off in every direction as well."

Tussing, speaking without a prepared text for more than an hour, pulled no punches in lambasting the administration position that the gas contracts will influence the pipeline route decision. He charged that politicians in Alaska and in Washington "suffer from a political disease endemic to isolated, colonial areas — it's very easy to believe one's own propaganda."

Hammond, told of Tussing's remarks, said, "I will not accept and I doubt that any Alaskan governor would accept the premise that we are simply helpless pawns in a federal decision. The effect of this decision on the environment, social and economic structure, and character of our state is immense and I will not accept a passive or defeatist attitude toward the route decision."

TUSSING predicted the decision on a gas route will follow this scenario:

—The Federal Power Commission will agree with the FP[illegible]

(Continued on Page 2)

State gain on Arctic?

JUNEAU (AP) — Alaska could earn substantially more from its royalty share of Prudhoe Bay natural gas under the Arctic Gas pipeline proposal if Congress deregulates the industry, according to a new legislative - financed study.

With deregulation, the study estimated the "netback value" to the state of its royalty gas delivered in Los Angeles at $1.66 per million BTU's under the Arctic Gas route as compared to $1.22 per million BTU's under the all - Alaska El Paso route favored by the state.

Sold in Chicago, the study said the "netback value" to the state would be even higher under the Arctic Gas proposal, $1.66 per million BTU's for Arctic - delivered gas as compared to 94 cents for gas delivered by El Paso.

The projection was included in an economic analysis of administration - negotiated contracts for the sale of the state's share of North Slope gas, currently the subject of hearings by special legislative committees.

But the estimate contained in the study conducted by Jensen Associates, Inc. of Boston deals only with the price of gas under deregulation and does not take into account the in - state economic impact of the routes which would be much higher for El Paso than Arctic.

The "netback value" comparison also did not mention the Alcan route proposed by Northwest Pipeline Corp.

The projection was based on a formula using the price of alternate fuels minus the cost of transporting the gas to market.

"The theory is that the price of natural gas at the market (e.g. Los Angeles) would tend toward a level related to the price of alternate fuels, and that the field price resulting would be the market price less the cost of transmission," the Jensen study said.

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continued from page 1

...ave gone before voters to comply...

• Economist stuns panel

(Continued from Page 1)

Administrative Law Judge Nahum Litt and recommend President Carter select the Arctic Gas Co. route, which would go from Prudhoe Bay through northern Canada and then south to the U.S. Midwest. Litt issued his recommendation Tuesday. The decision from the entire FPC must be made by May 1.

—Canadian Justice Thomas Burger, who holds a position in Canada roughly analagous to Litt's will decide at about the same time that the Arctic Gas route is unacceptable to Canada. Burger will base his decision on Native land claims disputes in that country and environmental question.

—This impasse will trigger negotiations between Canada and the U.S. to find the most acceptable route. The route eventually selected will be a compromise, following a path similar to the proposed Alcan route, but with greater capacity than the current Northwest proposal.

The only way an all - Alaska route could be selected, Tussing said, is if Canada refuses to give permission for any overland trans - Canada route to be chosen.

"The U.S. will accept any overland route that Canada is willing to allow," Tussing predicted.

Tussing's comments had legislators scrambling to respond, and several made it clear that they were angered by his predictions. Others said Tussing had aired doubts they had about the proposed contracts.

"I CAN'T HELP but infer from what you're saying that no matter what we do, the decision will be made by two people, and I would suggest that's wrong. I take offense to it," Sen. Mike Colletta, R-Anchorage, told Tussing.

Rep. Clark Gruening, D-Anchorage, who chairs the House special committee reviewing the contracts, said Tussing "capsulized previous questions we had about the contracts, and added further doubts about their effectiveness."

Gruening said he would vote against approval of the contracts if he is convinced that the contracts will have no effect on eventual route selection. If the El Paso route were selected because of internal Canadian problems, the state would be free to do with its gas as it wished if it had not signed the Hammond contracts, he said.

SEN. CHANCY CROFT, D-Anchorage, said he was leaning to vote against the contracts, and he predicted Tussing's testimony will have a strong impact on the legislature's eventual decision whether to approve the contracts.

Hammond, who issued a statement after being told by reporters of Tussing's remarks, said, "I do not accept Mr. Tussing's alleged characterization of the situation or my motives, nor do I believe his characterization is accepted by our congressional delegation, the legislature, or the people.

"To suggest that the royalty gas sale which has been proposed will have no effect ignores the fact that those who oppose the state position are strenuously resisting the sale proposal. Such resistance is a clear indication of the potential influence the sale can exercise in this decision," the governor said.

Former Lt. Gov. Red Boucher, who has lobbied for the Alcan route, was cheerful after hearing Tussing's analysis.

"That's political reality," he grinned.

The three companies which would be sold the state's royalty gas under the Hammond contracts are Tenneco Alaska Inc., Southern Natural Gas Co. and El Paso Natural Gas Co.

• Pay boost

(Continued from Page 1)

individual positions or entire classes of jobs, and establishment of an employe - funded business leave bank for APEA contract negotiators.

Gov. Jay S. Hammond expressed pleasure with the agreement saying, "I know there was hard bargaining on both sides and I think the parties have arrived at a fair agreement which protects the state employes and at the same time is fair to the taxpayers of Alaska."

The APEA's Darlene Howard also expressed satisfaction with the agreement.

State at odds with gas plans

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — Oil industry proposals for the earliest possible delivery of massive amounts of Prudhoe Bay natural gas to the lower 48 states have been quietly but firmly squashed by the State of Alaska.

The dispute, which may place Alaska interests in direct conflict with national energy demands, centers on major differences between state and oil industry officials over how best to manage the North Slope reservoir's 19.5 billion barrels of oil and 26.5 trillion cubic feet of natural gas.

Oil industry officials say their plan "provides for expeditious and economic development of the total energy resources at Prudhoe Bay consistent with good oil and gas conservation practices."

In challenging the proposal, however, state officials say the operators' plan may be motivated more by a "disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

At the center of the intense but unpublicized debate are two conflicting documents obtained by The Associated Press—the industry's "operating plan" for exploiting Prudhoe Bay reserves and a sophisticated state-financed computer "prediction of reservoir fluid recovery" from the field.

In its proposed operating plan, the industry has asked the state to guarantee the delivery of at least two billion cubic feet a day of gas by mid-1982, about five years after this summer's planned start-up of the trans-Alaska oil pipeline and the earliest possible date projected by the oilmen for completion of a natural gas pipeline and conditioning plant.

But state officials, who have been involved in confidential negotiations with the Prudhoe Bay producers over the operating plan for more than three months, have steadfastly rejected the industry management scheme on the premise that it violate's Alaska's tough conservation statute for the maximum production of both oil and gas.

In it's computer projection, the state contends that the delivery of two billion cubic feet a day of natural gas under the industry plan could cause the loss of as much as 1.6 billion barrels of oil, a significant figure in light of the acknowledgement by both sides that under the best of circumstances ultimate oil recovery from the field will total a maximum of only 40 per cent of the oil in place.

In an effort at compromise, the state says it could allow the gas delivery rate proposed by the oilmen if they will commit themselves to a massive water injection plan at the North Slope field.

All-Alaska gas line risks
Page 2

While acknowledging that the injection of water from the Arctic Ocean could help offset the loss of field pressure from early, large-volume production of gas, industry officials say they cannot and will not commit themselves to the $1 billion-plus cost of a source water injection project without several years of field history.

In contrast, the industry plan says field history is not needed for the state to guarantee early, massive gas offtake rates, an inconsistency noted by the state in rejecting the operating proposal.

The operating plan submitted by majority owners of North Slope reserves, British Petroleum, Atlantic Richfield, Exxon and Sohio, repeatedly emphasizes that "state approval of the gas offtake plan is needed now to insure that FPC (Federal Power Commision) certification, final design, financing and construction of the pipeline can proceed on schedule."

It defends the proposed offtake rates on the grounds that they would "immediately increase current energy to the consumers and current income to the owners."

State Natural Resources Commissioner Guy Martin says that considering the massive investment the oil industry has in Prudhoe Bay, including $7 billion in trans-Alaska oil pipeline costs alone, he was not surprised that the industry has balked at financing a massive water injection project or may be willing to sacrifice long term oil production for early gas profits.

"They would love it if the state would give them a guarantee, but we won't," Martin says. "It may be they have a disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now.

"But I think they know that in order to get the levels of gas production they are talking about under our conservaton statute, it is going to be necessary for them to have to have a water injection plan."

Without a commitment for massive water injection, Martin says the state probably will not set an initial gas offtake rate of more than about 1.6 billion cubic feet a day, a figure that is below the threshhold of feasibility for two of three competing gas pipeline projects.

And even with water injection, Martin says the state won't give the industry any absolute guarantees in advance for the estimated 20-year life of the field.

Gas Lobby Efforts Probed

By CHUCK KLEESCHULTE
Empire Staff Reporter

Lawmakers Tuesday continued their search to quantify exactly what benefits the state will net from sale of Alaska's North Slope royalty gas. For at least several members of the special House-Senate Joint Gas Review Committee disappointment was one of the main results.

"We keep asking what we're going to get and they just keep saying in effect, go ahead and approve the contracts and then we'll show you," said Sen. Kay Poland, D-Kodiak, head of the Senate's Natural Resources Committee.

Frustration was shown by several members as the heads of Tennessee Gas Transmission Co., Senior Vice President Robert Thomas, and of Southern Natural Gas, President Peter Smith, were grilled by lawmakers for five hours during the second day of three-scheduled days of hearings into the proposed sale of Alaska's one-eighth share of Prudhoe Bay reserves.

The bulk of questions Tuesday attempted to pin down how much money and effort the companies plan to commit to lobbying efforts in behalf of the all-Alaska, El Paso gas route the state supports.

"The whole issue appears to boil down that if we commit our gas now we are taking a chance of losing some benefits in potentially higher prices if we wait and sell later on. We are balancing that against the influence we'll gain from the companies by going with them now."

"So," said Rep. Clark Gruening, D-Anchorage, head of the House review committee, "We need to get a firm idea what we're going to get in return. Right now no one is really sure."

Thomas, speaking for Tennessee, a subsidary of Tenneco Inc. which will gain 50 per cent of the state's gas, up to 1.3 trillion cubic feet, said his firm has yet to produce even a working budget on how much it will spend to convince President Jimmy Carter and later Congress to select the El Paso land-water route over the two trans-Canadian routes: Arctic's and Northwest's Alcan routes.

The Arctic proposal Monday cleared the first hurdle in the selection process by being tapped as the best line by Federal Power Commission Administrative Law Judge Nahum Litt.

Thomas during his testimony said his firm would "commit all the resources necessary" to fight for the selection of El Paso's route. But he said while Tenneco has yet to commit a sizable workforce to the lobbying effort pending ratification of the royalty pact, Tenneco will not attempt ever to buy "political influence" simply by spending money.

"No amount of so-called political clout or pressure is going to determine the federal decision on this matter. We are convinced that the decision will be made on the merits of the issues. It is essential that all the issues be throughly discussed...and that's what we'll be doing," Thomas said.

Smith, likewise, said his firm has yet to commit sizable numbers of its staff to the project awaiting the ratification of the pact. Smith made an estimate, however, that Southern who will receive 650 billion cubic feet of gas under the contract might spend an additional $100,000 in outside lobbying expenses besides committing its whole public relations staff to backing the El Paso plan.

Smith said his firm would spend most of its time, an effort already underway in part, to convince gas-starved Southeast residents to support the El Paso route. He said the benefits of the project have already been explained to most Southern governors, all members of Southern Congressional delegations and to all the utilities which buy gas from the transmission firm.

Sen. Chancy Croft, D-Anchorage, a critic of the proposed sale negotiated by the Hammond Administration, asked Tenneco to submit data on the amount of money it has spent to lobby the state's legislature to support the gas contract plus all money spent to influence outside parties—especially money spent since the Nov. 12 announcement of the proposed contract.

Questions Tuesday continued to surface over the need for an "escape" clause in the contract, a provision allowing the three firms to keep their gas supply if they support the state, if the state ever switches its support to another line such as the Alcan project.

State Sen. John Huber, D-Fairbanks, asked both firms whether they had asked that the clause be included in the pact and both said they had not—that the clause had been included at the state's request. On Monday Guy Martin, commissioner of the state's Department of Natural Resources, had said the state wanted the clause to protect its future "flexibility" to the greatest extent possible.

GASLINE CONSIDERATION—Rep. Charles Parr, D-Fairbanks, (left) glances at his notes, while Rep. Clark Gruening, D-Anchorage, and Senate President John Rader, D-Anchorage, listen to testimony presented Tuesday during the second day of hearings into the proposed state sale of North Slope natural gas. Gruening and Rader are both chairman of respective House and Senate committees looking into terms of the sale of the state's one-eighth share of Prudhoe Bay reserves. The hearings are continuing today and probably will extend into Thursday.

Smith after the hearing, however, said his firm now would object to removal of the clause if proposed by the legislature. Thomas said his firm is opposed to making any adjustment in the proposed contract.

"If we are sent back to renegotiate the contract it would take too long and the state would lose the benefits it could receive. Also, any of the companies might be tempted to raise a number of issues on other points in the contracts," Thomas warned.

The clause has caused some fear among lawmakers that it might limit the incentive of the firms to push totally for the El Paso line. Both companies representatives tried hard, however, to dispel such fears saying their support for the El Paso line is strong.

Tenneco, in fact, questioned whether it would switch to support any other line even if the state did. The company said such a switch might harm its credibility in Congress, important to the conglomerates other business dealings.

Earlier in the day, representatives of Tenneco had been questioned closely about their lobbying techniques in other gas deals. Thomas in response promised his firm would engage only in practices which are completely legal under all state and federal laws.

Joint committee chairman Sen. John Rader, D-Anchorage, expressed support for the contract and gas purchasers after the session.

"I believe these fellows desperately need the gas and I think they'll do whatever it takes to get it. They have a clear incentive to work hard for us," Rader said, "and after the FPC decision we need all the troops we can get."

The hearings, with 19 witnesses scheduled for today, are being conducted at the Hilton hotel.

SOUTHEAST ALASKA EMPIRE

WILLIAM S. MORRIS III—PRESIDENT and PUBLISHER

KIM ELTON Managing Editor | JEFF WILSON Business Manager | TOM BLUMENSHINE Production Manager

Permanent Fund

(Editor's note: the following editorial is reprinted from the April 26 Fairbanks Daily News-Miner.)

What could be more exciting than the prospect of true economic stability for Alaska?

What Alaskan wouldn't like to see the boom-and-bust economic cycle that has plagued the state and the territory since the turn of the century be transformed into a relatively smooth line on the economic chart?

The leading possibility for this kind of economic stability for Alaska is the creation of a permanent fund which would be used to sock away a percentage of the state's oil receipts much like a savings account. The interest derived from the investment of the fund would be used to sustain certain state programs that would benefit all Alaskans.

There are two versions of how the fund would be established. One would take a fourth of all revenues from oil, including bonuses, oil taxes and royalties. The other would ignore oil taxes, but would increase to 50 per cent the portion of bonus and royalty funds that go to the permanent fund.

The legislature passed a bill creating a permanent fund last year, but Gov. Jay Hammond vetoed it, contending that the issue can be decided only by a constitutional amendment.

Only after oil receipts are invested will Alaskans be assured that their money won't be as quickly dispersed as it was following the $900 million North Slope oil lease sale in 1969.

If the state saves 25 per cent of its oil receipts for 10 years, the account will total $3 billion after the first decade. The three billion dollars could produce $100 million per year for injecting into other economic enterprises in the state.

What sort of enterprises? The fund could help put a viable state agricultural industry on its feet. It could provide loans to Alaskans who want to build their own homes, but can't obtain conventional financing. It could also be utilized in revitalizing the state's depleted fishing industry by helping individual fishermen finance and construct new boats. And it could simultaneously encourage the development of acquaculture corporations to rebuild the fish stocks.

Another exciting aspect of the permanent fund would be its effect on state spending. By mandating that a portion of the state's wealth being derived from non-renewable resources be sunk into the permanent fund, Alaskans would avoid careless spending of those revenues, at least. Chances are excellent the constraints of putting regular deposits into a state savings account would have a sobering influence on other state programs as well.

The permanent fund offers Alaska an opportunity to invest in itself, preserving forever the bonanza of our non-renewable resources in a way that will allow permanent improvements in the condition of our renewable resources.

7/21/77
A Times

Judges Get Tariff Appeal In Houston

HOUSTON (AP) — A three-judge panel of the Fifth Circuit Court of Appeals has taken under advisement a case involving interim rates for the trans-Alaska pipeline after hearing charges the Interstate Commerce Commission had incomplete information in setting the rates.

The appellate court, comprised of Chief Judge John Brown and Judges John C. Godbold and Paul C. Roney, was asked yesterday to set aside a June 28 Commission order setting a rate of $4.20 a barrel. The oil companies had sought tariffs ranging from $6.04 to $6.44.

Andrew J. Kilcarr, attorney for Mobil Alaska Pipeline Co., contended the federal commission erred by failing to receive expert testimony during a hearing. "That is the point, they never held a hearing," Kilcarr said.

Kilcarr said the commision acted without benefit of information on the actual cost of construction of the pipeline and without expert testimony on the uniqueness of the risks involved in the $9 billion pipeline project.

Kilcarr said it is possible the tariffs proposed by the companies could be found to be too low once all factors are considered.

"But all the factors were not considered," he said. "We are losing dollars we'll never recover if they eventually find our rates were correct."

Marvin Schwartz, representing BP Pipelines Inc., said the British Petroleum subsidiary alone would lose $43 million in revenue during the first six months of operations.

Charles H. White Jr., associate Commission general counsel, said it was true actual costs of the pipeline were not used but that the commission accepted data provided by the companies.

"There was cause for the finding of probable unjust and unreasonable rates," White said.

Alaska Attorney General Avrum Gross said the tariffs proposed by the companies were outrageous and at least $2.50 too high.

"The eventual tariff will be substantially lower than the interim rate," Gross said. "The realistic probability is the rate will be substantially lower."

A Times 8/2/77

Pipeline Commission Calls For Exxon Tariff Hearing

The Alaska Pipeline Commission has ruled that no oil will flow through a spur line to the new oil refinery at North Pole, near Fairbanks, until after a public hearing is held on intrastate transportation charges for the trans-Alaska pipeline.

Exxon Pipeline Co. yesterday filed a $5.10-a-barrel intrastate tariff, which state pipeline commissioner Robert Breeze said "may have the effect of making the North Pole refinery and Golden Valley Electric Association electric generating facilities uneconomic." Exxon was the first trans-Alaska pipeline owner to file an intrastate tariff.

Both Energy Company of Alaska, refinery operators, and Golden Valley plan to protest the transportation charge, Breeze said after a hearing in Fairbanks. Golden Valley said it had anticipated a maximum $3 a barrel tariff.

The refinery had hoped to receive its first shipment of oil yesterday to test the facility, with regular shipments beginning Aug. 15.

The tariff hearing will be held early next week in Anchorage.

Breeze said if the commission is dissatisfied with the intrastate tariff, it can suspend it and order an interim tariff.

"The commission has never made a determination that the tariff for the entire facility whould apply to only a portion," he added.

Golden Valley intends to receive fuel oil for its electric generating plant from the North Pole refinery, and had calculated that it could save 10 to 15 cents a gallon, compared to the price of oil now delivered from Anchorage.

The pipeline commission approved an interim tariff of 8.27 cents a barrel for the spur pipeline, which is owned and operated by Golden Valley. The 2.8-mile pipeline will link the trans-Alaska pipeline with the refinery and electric plant. A hearing has been set for Oct. 11 on that tariff.

Exxon's $5.10 interim tariff, and a permanent intrastate tariff of $6.27, are the same for transportation of oil to any point along the pipeline. The tariffs are the same as those filed with the Interstate Commerce Commission, for movement of oil from Prudhoe Bay to Valdez.

The Alaska Pipeline Commission met yesterday in Fairbanks to decide whether the connecting pipeline, between the trans-Alaska pipeline and the North Pole refinery, should be allowed to begin operation with less than the required 90 days' notice.

The interim tariff was ordered by the Interstate Commerce Commission in late June, when it rejected Exxon's filed tariff of $6.27, along with all other tariffs filed by pipeline owner oil companies. A federal appeals court Friday upheld the commission's order.

Exxon's intrastate tariff includes provisions for transporting to Valdez unrefined volumes of oil returned to the pipeline. The North Pole refinery will use only a portion of the crude oil in the production of petroleum products.

Exxon spokesman Blu Beathard said his company believes the intrastate rate is reasonable because oil leaving the line at any intermediate point south of Prudhoe Bay reduces the volume that otherwise could be transported from Prudhoe Bay to the Valdez terminal.

"Exxon, as a common carrier, will be required to utilize the same portion of facilities for a barrel of oil moved intrastate to an intermediate point such as Fairbanks," he said, "as will be required for a movement to the Valdez terminal."

Beathard said it is common practice in Texas for intrastate tariffs to be the same as interstate tariffs.

Breeze said it may be common practice for pipelines regulated by the Interstate Commerce Commission, but not for gas pipelines regulated by the Federal Power Commission.

A Times 7/20/77

Miles Heads Energy Panel

State Rep. Bill Miles Monday was named chairman of a newly formed State Energy Policy Committee, representing the state administration, the legislature and the public.

The committee, which was meeting for the first time, was created by the legislature at the last session. Its charge is to draw up guidelines for a continuing energy planning and development program and report to the governor and Legislative Council. A preliminary report is due Jan. 1, 1978, and a final report Jan. 1, 1979.

Members of the committee include Sens. Kay Poland, D-Kodiak; Brad Bradley, R-Anchorage; and Glenn Hackney, R-Fairbanks; Reps. Bill Miles, D-Anchorage; Al Nakak, D-Nome; and Leo Rhode, R-Homer; Commerce Commissioner H. Phillip Hubbard, Natural Resources Commissioner Robert LeResche and four members of the public, to be appointed by the governor.

Substituting for Hubbard at Monday's meeting was Clarissa Quinlan of the state energy office. Jack Roderick, assistant commissioner of natural resources, represented LeResche.

Miles said the work of the new committee may have long-range impact on the state second only to the permanent fund.

Four general areas to be studied in forming a state energy policy, he said, are the use and development of conventional and alternate energy resources, the relationship between various state agencies dealing with segments of the energy situation and an energy conservation policy.

"Today, no state agency has a handle on the broad spectrum of energy-related efforts," Miles said.

7/20/77 A. Times

New York's Governor Supports El Paso Line

New York Gov. Hugh Carey has written President Jimmy Carter urging approval of El Paso's proposed trans-Alaska gas pipeline project.

In the letter, Carey expressed his opposition to the Federal Power Commission's recommended "all-events tariff" for an Alaskan natural gas project.

Carey said the El Paso proposal is preferable to the Arctic Gas and Alcan proposals because only El Paso calls for construction activity exclusively under the control of the U.S.

"The risk of delay and associated cost-overrun involved in either of the two competing trans-Canada routes outweighs other potential benefits," he said.

Also, he said the El Paso plan for construction along the existing Alyeska oil pipeline corridor "materially reduces risks of adverse environmental impacts compared to alternatives."

Recent developments, including the Berger Commission's report in May, "have convinced me that (New York's) past tentative support of the Arctic Gas proposal is no longer justified," Carey wrote.

John O'Leary, head of the Federal Energy Administration, asked the governors of all the states for comments on tariff options that would impose on consumers some of the risks associated with the construction of any Alaska gas transportation system. Carey said "My overriding concern is that such risks not be borne by consumers but rather by the project sponsors, the gas producers, the State of Alaska and the federal government."

Those who stand to gain the most financially should bear the financial risks related to construction, Carey said. "The all-events tariff recommended by the Federal Power Commission would improperly impose a requirement on future gas consumers to guarantee debt for a project from which they may never receive gas."

Carey suggested that the risk of cost overruns "should be borne by the federal government, since completion of a project to deliver Alaskan gas to U.S. markets will benefit all energy consumers in this country, not just natural gas consumers."

7/29/77 A. Times

Shipment Requires Tariffs

By SUSAN ANDREWS
Times Staff Writer

The court fight over trans-Alaska pipeline tariffs should not prevent the first tanker from loading at Valdez Sunday or Monday "if the owner oil companies use their heads," says an Interstate Commerce Commission attorney.

The attorney, Charles White, said by telephone from Washington, D.C., this morning that the Fifth Circuit Court of Appeals in New Orleans has promised to make a ruling on the tariff dispute by noon tomorrow.

The commission has given the pipeline owner companies permission to file a revised tariff on one day's notice, White said.

Tom Brennan, spokesman for Atlantic Richfield Co., said his company is waiting until after the court's ruling to file a tariff.

Alaska Attorney General Avrum Gross said today he is confident the Interstate Commerce Commission will block the shipment of oil from the Valdez terminal if no tariff is filed. But if the federal commission does not act quickly, "We will take legal steps to see that they do," Gross said.

White said he doesn't think legal action by the federal commission will be necessary.

The circuit court can do three things, he said. "It can say 'ICC, you're right,' or it could say 'ICC, you're almost right' and they could change the commission's order around, or it could say 'ICC, you're wrong.' "

The latter two decisions by the circuit court are "both are ripe for Supreme Court action," which he would file within a week, White said.

But that would not not hold up the shipment of oil from Valdez if the owner oil companies filed temporary interim tariffs. "They can do that today," White said.

The court battle stems from the Interstate Commerce Commission's ruling that the tariffs filed last month by the owner companies are too high. The oil companies asked tariffs ranging from \$6.04 to \$6.44 a barrel.

The rates the owner companies charge for transporting oil through the pipeline directly affect Alaska tax revenue from Prudhoe Bay production because transportation costs are subtracted from the selling price of oil to determine wellhead value, on which state taxes and royalties are based.

The federal commission, in unprecedented action, suspended the tariffs and recommended their own tariffs, from \$4.85 to \$5.10. The owner companies went to court to fight the commission's action.

White said if the court's ruling upholds the commission's action, the owner companies still would have to file tariffs which will be good until Jan. 28, the end of the seven-month suspension period ordered by the commission.

He said if the case goes to the Supreme Court, the owner companies still can file temporary tariffs, good until the Supreme Court acts. There is no reason that oil movement from Valdez should be held up "if they use their heads," he added.

Terry Lenzner, a special counsel to the Alaska Pipeline Commission studying cost overruns on the pipeline project, was the first to raise the specter of oil being halted at Valdez because of the lack of tariffs.

Pipeline commissioner Robert Breeze indicated some irritation with Lenzner's public declaration. "That's a little out of the purview of Lenzner's work for the commission," he said.

Permanent fund: public extravagance

ALASKA FORUM

This is the final installment of a two-part Alaska Forum on the proposed permanent fund to be derived from state oil revenues by John Havelock, the state attorney general during the Egan administration.

By JOHN HAVELOCK
(Second of two articles)

Some of the support in Juneau for establishing state dedicated funds arises from perfectly laudable sentiment in favor of public thrift. By expressing such overwhelming enthusiasm for these proposals, our legislators assure us both of their own frugality and the hazards down the road for the treasury if we should be so careless as to replace them with others less dedicated to saving our money.

Unfortunately, there is no substitute for not spending money when it comes to thrift.

DEDICATED FUNDS do not save money. They provide for the manner of its use. By tieing the hands of state budget makers, dedicated funds may well create additional pressures for taxes or other revenue measures.

This is the case even when dedicated funds are required to be accumulated. The effect of accumulation is to assign part of the usual appropriation process to a state bank. Each of the proposals for dedicated funds is potentially a proposal to split state government in two.

One of these governments is familiar to me. I help elect its directors and help to kick them out when they run it badly. The directors are politicians. That means they are eager to please. They spend much time communicating with us about what they are doing and try to state it in understandable terms. If we don't control them effectively, we usually have only ourselves to blame. If we become complacent, they spend money foolishly and raise taxes. That usually wakes us up again.

NOW I SEE ANOTHER, less familiar, twin government on the horizon. We won't notice its management problems as much because it won't have to raise our taxes when it spends money foolishly. We don't know who its managers will be. We don't know what policies they will adopt nor is it likely that they will respond to us on a day to day basis. We must accept that what they do for us will be in our best interests — by benefiting some of the people who are going to be around in thirty years. We will get the trickle down, whatever and whenever that may be.

I am told that I can't trust the government I can control so I should invest my heritage in a government of bankers I can't control. There is no logic to this.

Assuming thrift is our purpose, what discussion has there been of alternatives to constitutional amendment?

FOR INSTANCE, if this wealth is such a public embarrassment, what would be wrong with giving it directly to the people on a per capita basis, perhaps by raising the state's minimum exemption on income tax or by a disbursement to school tax payers? If tax rebate plans are seen as discriminating against the very poor, who have an equal share in our commonly owned resources, maybe we could combine tax relief with increases in welfare payments, or through some more equitable per capita distribution.

Since most of us are quite aware that Prudhoe Bay is just the beginning, how about saving by keeping new oil reserves in the ground or by otherwise dampening immediate income growth through slowing the pace of natural resource exploitation? Since the possibility of a real nuclear power cost breakthrough has pretty well faded away, in the long run, the state's wealth may be much safer in the ground than in the hands of a new banking system.

By dedicating a large part (but not all) petroleum income to a special fund, pressure will heighten on the state to meet normal budget requirements through expanding resource exploitation in order to increase usable income from either royalty or taxation.

IF WE ARE TO HAVE a dedicated fund, maybe we should decide what it's for. There are some traditional objects of public investment that bear good return. Our greatest resources are our human resources. By investing in human resources we get the best return on capital.

If the pie is to be split among "builders, businessmen and fishermen," what rationale will control the split? Legislative approval will come from log rolling — the process of combining enough special interests to constitute a majority. The rush for a piece of the investment fund will be a sight to behold next year if the constitution is amended. Who will come in last? J. Q. Public is a safe bet.

It is possible that an Alaska dedicated fund is desirable. But I would be uneasy about following foreign models, such as Social Credit dominated Alberta, where political and economic traditions and the role of government in the economy are quite different. We do have domestic models in a number of the states. Closest to home, the State of Washington has a dedicated fund for education. The State of Texas has endowed its University.

AGREEABLE AS THESE sound, those who wrote our state constitution had the opportunity to observe these models and rejected them.

Considered individually, out of the context of all government needs, an endowment for loans to fishermen, public education, our pioneers, medical research or whatever, will sound like a swell idea. But the job of government is to balance among all these and hundreds of other laudible competing interests. The relative merits of each purpose will change from year to year as new needs arise and old forms of expenditure seem less pertinent.

There is no need to believe we are spendthrift because we spend natural resource dollars. Those who presided over the founding of Alaska knew that revenue from resource development would be necessary to meet the ordinary expenses of government. Because the Congress knew these resources would go to the state treasury and help pay the way for state government, Alaska was granted statehood. The record of congressional debate is clear.

NO ONE CAN DOUBT the superficial charms of dedicated funds — protecting our money from wicked or profligate politicians. Frugality is a great American virtue. But money saved does not go away, it is just spent by somebody else. If we decide to "invest" it in Alaska we have really only shifted the power of control from one group of people to another: from the legislators, the Governor and the executive branch of government, to bankers and borrowers.

Advocacy of dedicated funds has been based on a theory of economic behavior that has great virtue in the home but little relevance when the state itself is both the saver and the banker. It has also been based on a theory concerning the economic future of the state which is, at best, highly speculative. Many people, including the writer, do not believe that Alaska is likely to face a severe economic downturn in any near future resulting from exhaustion of natural resources. Before establishing a new system for the management of public monies, we should ask ourselves, who benefits? Who loses?

The advocates of dedicated funds have not come to grips with the real problems inherent in a dedicated fund, dedicated not to any purpose but to the principle of saving for its own sake. It is a novel enterprise for the state to set up an investment bank, in the absence of very specific needs for capital. Saving and investing "against a rainy day" is a money management policy dedicated to the benefit of a vaguely defined class of people quite different from the present taxpayers and voters of this state.

WE SHOULD ASK OURSELVES, is there a remedy better suited to meet the ills perceived? The constitutional fathers created a powerful budgetary control tool, rarely seen in state government, in the governor's line item veto. If we are truly concerned about legislative fiscal excesses, we should encourage him to use it.

Management tools, also, such as the recently recommended periodic zero-based budget analysis may prove effective. Dedicated funds discourage zero-based analyses and set up powerful vested interests against change in the status quo of benefit distribution.

If you are worried about the temptation of huge bonus bids, receipts can be leveled out over a longer time by allowing bidders to pledge a per cent of the value of the oil — royalty bidding; by putting up smaller tracts for sale — not a billion dollars at a time; by providing for rental bonuses paid over years. There are many ways to assure income at a steady level over many years.

ULTIMATELY, THE CALL that we protect ourselves from the budgetary excesses of the legislature and the governor is a call that we protect ourselves from ourselves. We are asked to do this by removing a restraint on legislative action, the very purpose of which is to encourage legislative fiscal responsibility.

With this restraint removed, we will be offered a smorgasbord of proposals to dedicate revenue to special investment.

Who benefits? Who loses?

Anchorage Daily News 5/3/76 P.F.

COUNCIL MEMBERS LEARN ABOUT GAS

Members of the Council on Environmental Quality hear testimony here on the three gas line proposals. Gus Speth is at left; Mary Edey is at right.

Economist Predicts Need For Subsidy

"If the President and Congress want a gas pipeline delivery system from the North Slope, the federal government is going to have to subsidize it," economist Arlon Tussing told a Council on Environmental Quality hearing here yesterday.

"The problem is how you do that without an invitation to cost overruns," he said.

Tussing predicted that a natural gas transportation system from Alaska's North Slope could cost $20 billion, with a delivered price of gas between $6 and $7 per thousand cubic feet, "higher than the cost of imported oil."

He said his "intuitive" feeling is that the Alcan route down the Alaska Highway involves the least risk, and he would favor that route "without the frills," such as a western leg. That could be added later, he said.

Tussing said the Federal Power Commission study of costs showed "naivete" because it took the pipeline sponsors' cost estimates. He said while costs of the trans-Alaska oil pipeline have doubled since 1974, the gas pipeline sponsors' estimates have remained the same.

El Paso's all-Alaska pipeline system has "less risk on the pipeline portion," because it follows the trans-Alaska oil pipeline corridor, Tussing said, but its marine leg is a "big risk."

Overall, he rated Arctic Gas as the highest risk, followed by El Paso and Alcan. New technology and an untested environment contribute to high risks of cost overruns, he pointed out.

Tussing, who advocates a North American energy policy, is a University of Alaska professor and is on the staff of Sen. Henry Jackson, D-Wash.

He repeated his prediction that the cost of transporting North Slope gas to the consumer will give the gas a value of "zero or less" at the wellhead.

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Magnificent Job

HOW LONG, do you suppose, the time and date of 9 a.m., June 20, 1977, will remain fixed in the minds of Alaskans?

Will that particular moment in history become a milepost along Alaska's trail from territorial pioneer wilderness to the day when the State of Alaska became the modern world's most important energy supplier?

Or will the moment become nothing more than a footnote in history, an item for the lovers of trivia to play with?

No matter, really, the eventual role the memory of this time and date might have in years to come.

What is important is that at 9 o'clock tomorrow morning, if all goes according to plan, oil will begin to flow from the Prudhoe Bay fields on Alaska's Arctic Coast. It will begin an 800-mile journey via pipeline to a tank farm at Valdez, and from there eventually will reach the marketplace. The event and what follows in the years ahead will command attention, historical evaluation and a continued inspection that will insure a place in history for what today is called simply the trans-Alaska pipeline.

THIS 800-MILE-LONG tube of steel may not forever hold its unique classification as the trans-Alaska pipeline. In the years to come there may be others — certainly a natural gas pipeline to begin with, and later more lines to tap the great reserves of northern Alaska outside the confines of Prudhoe Bay.

But at long last, without undue fanfare and hoopla, the first trans-Alaska pipeline goes into operation tomorrow. It will be a moment of enormous consequence for Alaska, the nation and the world.

First announced in 1969, delayed for years, the pipeline has become many things. It has been the target of environmental extremists, a concern of many well-intentioned people who have an unknowing fear of development in the northland, the joy of those who seek economic development in frontier regions, a bonanza for thousands of workers, a blessing and a headache for many communities, the hope of an energy-starved nation and, among many other things, a magnificent accomplishment which is testimony to American technical and engineering skills.

IT HAS BEEN enormously expensive, but it holds the promise of rich rewards to the taxpayers of the state, to the energy needs of the United States, in dollars to its investor companies and their millions and millions of stockholders throughout the nation.

Further, its rewards include a whole treasure house of scientific information about the Arctic, of new techniques and requirements for protecting the environment of the Arctic and sub-Arctic regions, of knowledge about the wildlife of the vast northern areas of Alaska and it has opened the door to anthropological investigations into Alaska's past that otherwise may well have remained forever closed.

There are many things that could be said to find fault with the way the job was done and the fault-finders are many and will not be stilled for years to come.

On the other hand, there are many more factors about this gigantic construction project that should be praised.

MOST OF ALL, on the eve of the start-up of the line, in the hours before the signal is given for "oil in," there is reason to praise the men and women who built the pipeline.

The job was not easy. It was not easy for Ed Patton, Alyeska's president and later chairman, and it was not easy for Peter DeMay, vice president and construction chief. It was not easy in the bitter cold of the Arctic winter for the welders and the pile drivers and the carpenters and the electricians and the truck drivers and the cooks and the guards. Sure, the pay was high. But the hours were long, the toll in human terms was severe.

Those who had a part in this project — no matter how small, no matter how large — can look back in pride at their participation. They can tell their children and their grandchildren what it was like to forge a pipeline through Alaska back in the '70s.

The time and the date when the first gallon of crude flowed into the line may not be memorable in history. But the job these people did has earned a lasting chapter in the history of Alaska.

Alaska Proposes Guarantee

By SUSAN ANDREWS
Times Staff Writer

The state has offered to guarantee $750 million to $800 million of the debt for an all-Alaska gas pipeline during construction.

The aim of the Hammond administration's offer is lowering the cost of gas to the consumer, making the El Paso all-Alaska gas line project more attractive to the federal government.

With the guarantee, gas line builders would be able to obtain loans at lower interest rates. The guarantee would be supported by the Alaska permanent fund, according to the state's offer, sent Tuesday night to Roger Altman, assistant U.S. treasury secretary.

A condition of the plan would be that the state increase to 50 per cent its contribution to the permanent fund, state Commissioner of Revenue Sterling Gallagher said in a telephone interview yesterday from Washington, D.C. A constitutional amendment approved by voters last fall stipulates that at least 25 per cent of oil and gas royalties and bonuses must go into the permanent fund. However, the state legislature can set the percentage higher.

Gallagher said the debt guarantee proposal does not mean the state would pay $750 million, but that the pipeline debt would be guaranteed. Gallagher said the guarantee would be good for the construction phase of the pipeline. After its completion, project revenue would provide the support.

Gallagher met with Altman in Washington this week, and he also met with members of Roger Goldman's staff. Goldman is setting up the Alaska gas line task force for President Carter and is on energy chief James Schlesinger's staff.

Gallagher is urging a top price for North Slope gas so the Lisburne and Kaparuk formations will be economically feasible to produce. Those formations lie near the main producing formation of the Prudhoe Bay field. "After meeting with the Federal Energy Administration (Tuesday), they seem to think no special pricing for Alaskan gas is necessary," he said.

El Paso is delighted with the state's offer to guarantee a portion of the pipeline financing, El Paso Alaska Vice President John Bennett

(See Page 2, Col. 2)

State Offers Gas Line Backing

(Continued From Page 1)

said yesterday from Washington.

"It is a very generous offer by the State of Alaska," he said. "No one can predict the outcome of the financing plan. But the state's commitment increases the flexibility" for financing.

Gallagher said it would be inappropriate for the state to be an equity owner in a pipeline because of possible conflicts with the state's role as a regulator of pipelines.

It is "totally uncertain" whether the state's offer could be applied to any project other than the all-Alaska route, he said.

The legislature's resolution authorizing the Department of Revenue to study state participation in financing is limited to the all-Alaska route.

Gallagher is in Los Angeles today to meet with Atlantic Richfield Co. officials about the possibility of Arco — a major Prudhoe Bay gas producer — also guaranteeing a portion of the pipeline debt.

The Justice Department has ruled that it would be illegal for producers to own an equity interest in the pipeline, but Gallagher said a debt guarantee is not illegal.

No one, "not even the President of the United States," can predict how the gas pipeline will be privately financed, Bennett said. The ultimate decision lies with a syndicate of investment bankers who will be the interface between the consortium which will build the pipeline and the lenders.

El Paso's proposed all-Alaska project is in competition with two Canadian routes, the Arctic Gas route through northern Canada and the Alcan route down the Alaska Highway.

Bennett said "things look damn good" for his company's project.

"I feel satisifed our project will be approved unless political caprice prevails over the merits of the project."

Bennett added: "In this town, rumors are flying so fast that anyone's ignorance far exceeds what's known for sure."

The President has until Sept. 1 to make a decision on the gas line route. Bennett said it is clear that in order to make that announcement by Sept. 1, the President will have to make up his mind sooner than that.

"I'm doing everything I can," Bennett said. "I must have handled 100 calls today from all parts of the country and the cabinet and Congress."

Morris Thompson, vice president of Alcan Pipeline Co., is in Salt Lake City this week at a meeting of his company's top officials to discuss the implications of the Canadian National Energy Board's approval of the Alcan project.

The board recommended rerouting the Alcan line so a spur pipeline can be built from Dawson to the Mackenzie Delta to tap Canadian gas reserves. The rerouting left several options open for the Alaska portion of the route.

The 15 member companies of the Arctic Gas consortium met yesterday in Toronto to discuss what their course of action will be following the National Energy Board's rejection of their gas line route.

That decision was a blow to Arctic Gas, which was the first to propose a natural gas pipeline from the North Slope and has spent more than $100 million on the project.

Gallagher said the U.S. government is anxious to avoid consumer guarantees during construction of a pipeline, the so-called "all events tariff" which all three pipeline proposals have requested.

"Canadians finance pipelines with a cost-of-service contract, which is an all-events tariff, even on the equity portion of the financing," Gallagher said.

He said El Paso might ask for consumer guarantees only on the debt portion and not the equity investment during construction.

But Bennett said, "We cannot responsibly take the position that some risk to the consumer is not required in order to finance the project. We have made a statement that if everything works out well, the risk to the consumer could be reduced."

Gallagher met last weekend in Washington with El Paso Chairman Howard Boyd, Bennett and Earl Trevithick, El Paso's vice president for financing.

In his letter to the Treasury Department, Gallagher said the state's offer assume adequate equity participation in the pipeline and assumes a "satisfactory resolution of the question of pricing of North Slope gas."

Gallagher was hopeful last week that Prudhoe Bay producers could be persuaded to guarantee a portion of the pipeline debt if they could be assured of a good price for the gas.

Exxon, a 40 per cent owner of the gas, has said it is not interested. Arco, which owns another 40 per cent, "is at least willing to discuss it," Gallagher said.

Chuck -

I copied these clippings so you don't have to film them in this format.

Vicki