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STATE INVESTMENT ADVISORY COMMITTEE
MEETING

NOVEMBER 5 AND 6, 1976

Anchorage, Alaska

1 STATE INVESTMENT ADVISORY COMMITTEE

2 November 5 and 6, 1976

3 Anchorage, Alaska

4
5 Chairman Eric Wohlforth called the meeting to order at
6 9:00 a.m. on Friday, November 5, 1976, in Room 406, State
7 Courthouse, Anchorage, Alaska.

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9 Members present were:

10 Dr. Logsdon, Associate Director, Agricultural
11 Experiment Station, University of Alaska, Palmer
12 Mr. Eric Wohlsforth, Attorney at Law, Anchorage
13 Robert Barnes, President, Alaska State Bank, Anchorage
14 Mr. Dennis Waldock, Foster & Marshall, Anchorage
15 Mr. Jamie Love, Alaska Public Interest Research Group
16 Mrs. Lanie Fleischer, Anchorage
17 Mr. James Crawford, Coordinator Alaska Offices, Ted
18 Stevens/ U. S. Senator, Anchorage
19 Senator Frank Ferguson, Kotzebue
20 Commissioner Motley, Department of Commerce & Economic
21 Development, Juneau
22 Commissioner Gallagher, Department of Revenue, Juneau
23 Deputy Commissioner Edenso, Department of Revenue,
24 Juneau
25 Senator Kerttula, Palmer
Representative Gruening, Anchorage
Mr. Freer for Commissioner Allen, Department of
Administration, Juneau
Mr. James Rhode, Anchorage
Mr. Robert LeResche, Director Development Planning &
Research, Juneau (present on November 6)

Absent Members:

Mr. Emil Nottis, President Alaska Native Foundation,
Anchorage
Mr. Pihl, Comptroller Ketchikan Pulp Company, Ketchikan
Mr. Robert Thorstenson, Petersburg
Mr. Robert McFarland, Anchorage
Senator Butrovich, Fairbanks
Representative Malone, Kenai
Representative Urion, Anchorage

1 MR. WOHLFORTH: We are calling the meeting of the
2 State Investment Advisory Committee to order. I am acting as
3 temporary chairman in the absence of Bob McFarland, who is on
4 vacation right now and is unable to attend.

5 You all know of the passage of the Permanent Fund
6 Amendment last Tuesday, which has been the subject of study by
7 this Committee of two intensive meetings and this is the third
8 meeting where the subject matter of the structure of the
9 Permanent Fund and testimony has been taken at prior meetings
10 from consultants, really in a learning process, in aid of a
11 learning process to advise the Legislature, if you will, the
12 appropriate legislative committees of some Permanent Fund
13 operations in other states and provinces and development loan
14 bank operations elsewhere throughout the world.

15 This morning we have time set forth for public hearings
16 the subject being, now the Permanent Fund has passed, with its
17 limitation that monies placed therein be used for income
18 producing investments. What kind of structure of operation,
19 what kind of organization, what sort of use of monies for income
20 producing investments is appropriate to recommend to the
21 Legislature and to the legislative committees when they convene
22 and start their work in January. Fortunately, we have
23 legislative members on this Committee and, therefore, we hope that
24 the continuity of information which is started will flow more
25 evenly as the legislators carry their information back to the

1 committees when the Legislature convenes.

2 The agenda is formatted over a 2-day time frame and I
3 will just briefly go through the agenda. This morning is set
4 aside for a public hearing. This afternoon at 2:00 o'clock Mr.
5 Butler of White Weld will give a report on possible uses of the
6 Permanent Fund to leverage investment. In other words, the
7 concept of non-direct investment of the monies but use of the
8 Fund to create other investment vehicles or investment instruments
9 for those general purposes. At 3:00 o'clock, Mr. Bob Richards
10 will speak in general on the Alaska banking system and
11 presumably in his capacity for investments of various kinds
12 which might be contemplated for the Permanent Fund. At 4:00
13 o'clock, the Committee will have open discussion, presumably to
14 digest and to comment on some of the items which they have heard
15 this morning and will hear this afternoon. At 9:00 o'clock
16 tomorrow, and presumably at the same place, Price Waterhouse
17 Company will report on management governing boards and problems
18 encountered in both the operation of other permanent funds and
19 in the operation of development loan situations, development
20 loan bank situations elsewhere in the world, the question of
21 What Went Wrong. In other words, how can we avoid some of the
22 mistakes that have been made elsewhere in this area. At 10:00
23 o'clock tomorrow there is scheduled a work session under the
24 general topic of Structural and Organizational Considerations.
25 At 1:30 tomorrow, a continuation of work sessions on the question

1 of structure of the vehicle, which will make the investments, if
2 you will, which are permitted under the Constitutional
3 Amendment which just passed on Tuesday.

4 As you speak this morning, if you would proceed to this
5 little card table, the microphone will be placed on the card
6 table, and simply identify yourself and spell your name for the
7 purposes of the transcription. All of these hearings are being
8 transcribed verbatim. And here is the transcript of the last
9 meeting. Again, with the notion that the legislative committees
10 will have a complete record of the information and comments that
11 have been submitted at these meetings. I would like to get an
12 indication now of the number of members in the audience who do
13 wish to be heard this morning. Seven members. Given that, I
14 don't think we need to impose any time stricture because there
15 seems to be plenty of time to accommodate all those who wish to
16 be heard. I do have one request to speak initially and that
17 request comes from Mr. Phil Daniels who is here and apparently
18 has a pressing time problem. If any of the others have absolute
19 time committments and there is any reason they can't stay beyond
20 the next hour, we would be glad to hear them in a preferential
21 order.

22 Again, just to alert you to our interest, this is an
23 information gathering, educational type of effort, speaking on
24 the structure and organization of the vehicle which will "administer"
25 the Permanent Fund as well as intentional investments as they

1 relate to what is happening in Alaska and what we estimate what
2 will happen later. So we would begin the public hearing then
3 and Mr. Phil Daniel will be first.

4 MR. PHIL DANIEL: Mr. Chairman and members of the
5 Committee, my name is Philip Daniel and I am with United
6 Fishermen of Alaska. That is a rather dubious gathering of
7 commercial fishing organizations representing about 24 groups
8 that are spread through the coastal regions of the State.

9 I would like to speak in rather general terms about the
10 present situation in the fisheries as it might relate to the
11 Permanent Fund. The first observation would be that the Alaska
12 fisheries at this point in time is rather archaic in structure
13 and in its scope. I don't want to say by that that we are not
14 reasonably efficient in the things that we do. I am really
15 trying to get at the problem that the fishery is rather narrow
16 in its viewpoint. We are presently harvesting about four stocks.
17 They are gourmet items as most of you probably know if you have
18 gone close to any of those items on the grocery shelf. And we
19 are neglecting things that could be done. Certainly, that might
20 pertain to the subject at hand. By that I mean that two years
21 ago, 5.6 billion pounds of fish were harvested in Alaskan waters
22 and of those 5.6 billion pounds that were harvested the
23 Japanese and Russians took 5.1 billion which is about 89 percent
24 of the poundage produced. That by no means represents poundage
25 of salmon or the various traditional fish that we are primarily

1 concentrating on, but primarily bottom fish that American
2 fishermen are not presently trying to harvest. I don't know what
3 the economic value of those bottom fish would be, but I would
4 assume that, if a market were developed, it would be substantial.

5 The first problem is simply that the market has not
6 been developed. And the present burden, of course, is upon the
7 processor as far as developing the market. It's a substantial
8 burden and it may be that the State could play a role there. I
9 don't know whether, for example, the State might want to think
10 along the lines of standardizing a brand for the State of Alaska,
11 something in the direction of Florida orange juice or Florida
12 oranges. I know there has been discussion of this in Juneau.
13 That certainly could help. Any marketing operation, getting the
14 message out to the general public could help substantially.

15 Additionally, and I don't want to go too deeply into
16 what might be possible except to kind of outline the problem.
17 But there is just no question in my mind, in the future we are
18 going to have to rely more and more on the renewable resources.
19 There is going to be a terminal point, at this point in time,
20 we don't know when that will be as far as the very substantial
21 oil production that is going to take place in the near future.
22 And, at that point, I would assume we will be dropping back on
23 the traditional renewable resources, tourism, fisheries, timber
24 and things of this type. So it might well be worth considering
25 what the Permanent Fund by way of investment could do to stimulate

1 the fisheries, and certainly the movement into the bottom fish.

2 Under the present 200-mile regime, we have an ability
3 to displace the foreign vessels that are presently harvesting
4 our fish stocks. I don't think that is going to happen initially
5 at a very, very high rate. Mainly because there is going to be a
6 temptation to trade off Alaskan interests against other national
7 interests and there is only 350,000 of us and you have about
8 200 million people sitting down in the Lower 48 and I think there
9 will be a continued temptation for the State Department to trade
10 off Alaskan interests and perhaps make concession on our bottom
11 fish stocks that probably shouldn't be made. But over a period
12 of time, under the present bill, we can displace the foreign
13 fisher. And that is going to require, of course, a gearing up
14 on the part of American fishermen, but even more so the
15 development of those markets. So I think that should be the main
16 thrust of the thinking.

17 Additionally, as many of you may have heard to the point
18 where you don't want to hear it again, our salmon fisheries are
19 in very great difficulties. We only have about a third of our
20 salmon stock remaining at this point in time. We feel that that
21 situation need not exist in the future, primarily of the success
22 of the Japanese efforts in hatchery production. Last year Japan
23 produced 16 million chum salmon which is four times the annual
24 average production for the State of Alaska. And they have done
25 that at a very substantial cost benefit ratio. Their better

1 hatcheries are achieving a cost benefit ratio of 24 to 1. I
2 would not want to say then that we can expect that kind of
3 achievement here, but it certainly should be able to operate at
4 a profit. And this will be the crucial test in any hatchery
5 system, whether it is a State hatchery system relating to the
6 presently passed bond issue, or whether we are looking at it from
7 the standpoint of private non-profit hatcheries that presently
8 exist. The crucial test would be whether they could the fish
9 and afford to catch them. Traditionally, of course, the hatcheries
10 that are producing fish in the northwest are often questionable
11 in that respect. They very often had a fish return that was
12 more expensive that you could afford to produce. You perhaps
13 could justify it from a sports fish point of view and from a
14 tourism point of view because those fish are individually worth
15 more to the State in those areas than they are in a commercial
16 fishery. But from a commercial point of view, there have been
17 some very significant breakthroughs in the last few years in
18 hatchery production that has brought the price down very
19 substantially. The present price tag that is being talked about
20 is somewhere between one and four million dollars for a 40
21 million fish capacity gravel incubation system. I don't want to
22 go into detail on gravel incubators except to say they produce
23 a very healthy smolt and they product it at a very much lesser
24 cost than the so-called conventional hatcheries that have been
25 employed for years in the northwestern part of the United States.

1 The crucial test, again, is whether or not in Alaska we
2 can build these hatcheries, turn the fish loose, and get them
3 back to us at a profit. I think that is a distinct possibility.
4 We very strongly urge a loan program that was passed by the last
5 Legislature creating a 200 million dollar loan program which works
6 in this fashion: The fishermen would assess themselves and the
7 value of their catch in a particular region, the money derived
8 from that assessment would be used for security to approach that
9 loan. And, of course, the idea is to put part of the burden of
10 replenishing the fishery on the fishermen themselves. And I
11 believe there is almost an universal willingness among fishermen
12 to help absorb the cost. This doesn't, of course, say that we
13 should not have State-owned hatcheries. I have some criticism
14 of the State program at this point in time. It is obviously
15 new and it is perhaps a little bit premature to be terribly
16 critical of them. But I can certainly see a role for State
17 hatcheries and especially in areas where there is intense
18 concentration of sport fishermen. On the other hand, if the
19 commercial fishermen themselves are willing to help pick up the
20 tab for rehabilitating the commercial species, it is probably a
21 very desirable situation. And I think that willingness does
22 exist.

23 I could see the Permanent Fund acting as a stimulant to
24 the industry moving into the bottom fishery. I can see it acting
25 perhaps as a stimulant to the hatchery production situation. The

1 bills that are presently passed are not perfect. We may want to
2 revise them extensively. There is certainly going to be a
3 considerable monetary requirement so far as rehabilitating the
4 salmon fishery. If that were done solely with State money, we
5 might be talking of a sum of around 300 million dollars. That is
6 a substantial amount of money. It is not, of course, unthinkable
7 if you look at what is happened in the rest of the Pacific realm.
8 Washington just initiated last year a 200 million dollar
9 expansion of their presently existing program. British Columbia
10 initiated a 300 million dollar expansion of theirs. Japan is
11 expanding her hatchery system at a very significant rate. Last
12 year they released a billion smolt. And within ten years, they
13 will be releasing 2 billion smolt from their hatcheries. Last
14 year we released 6 million smolt from all of our official
15 sources. So it is rather pertinent that we look in these
16 directions. I don't want to try to convince anyone who is
17 sitting at the table that I have a good grasp of the economics
18 of the situation. I am really rather naive and am speaking to
19 you as a commercial fisherman. But I can certainly see a very
20 significant role that could be played by the Permanent Fund to
21 stimulate the industry and hopefully provide an economic base
22 that we can turn to when other avenues have exhausted themselves.
23 Thank you.

24 MR. MOTLEY: Mr. Chairman, could I ask a couple of
25 questions? Mr. Daniel, you talked about -- you said that no

1 market was established for the 5.1 billion pounds. What you
2 really mean is that there has been no domestic market.

3 MR. DANIEL: That is correct.

4 MR. MOTLEY: Wouldn't you think it is a logical
5 assumption that given a 200-mile limit that the people who have
6 been used to eating that 5.1 billion pounds of fish aren't going
7 to stop eating them. So what we are really talking about is a
8 change in the relationship of the process in which they're caught
9 and processed within the 200-mile limit, i.e., the exclusion of
10 foreign fishing rather than necessarily disrupting the total
11 market. Is that a fair statement?

12 MR. DANIEL: I would say it is. Certainly, if the
13 American fishermen were to catch those fish, I think the American
14 fishermen would like to see the reserve in the present balance of
15 trade deficit. We had a 1.5 billion dollar balance of trade
16 deficit last year, the Federal Government did on fisheries
17 products. Well, if you could turn that around so so that we were
18 harvesting and selling to the Japanese, that would be fine.

19 MR. MOTLEY: So what we are talking about, you would
20 envision the Permanent Fund to be a vehicle to possibly replace
21 the Japanese mother ships with American mother ships or on-shore
22 processing facilities?

23 MR. DANIEL: Well, I think that. But I would like to
24 go beyond that. We have done so little in the Lower 48 to
25 convince people that fish is a good product. In France, the

1 average Frenchman eats about 33 pounds of fish a year, and in
2 Japan it is almost twice that. The average American eats about
3 11 pounds. We are primarily beef eaters, I suppose, in the
4 United States. And I have heard many people make the observation,
5 first, that you can't buy fish here in Alaska, which obviously
6 is not the greatest market in the world by virtue of the lack of
7 population. But if we could do something to get fresh fish or
8 good products down into the Midwest, for example, or the East
9 Coast. I've seen fish products that we harvested here that you
10 could sell on the East Coast for 40 to 50 cents a pound, bottom
11 fish, that you can't give away here. You use them for bait.
12 And it is really not desirable and I think -- and I really agree
13 with you, you want to continue to go to those markets. At the
14 same time, if there is anything you can do to broaden that
15 market, especially broaden it into the Lower 48, I think that
16 would be desirable.

17 MR. MOTLEY: With regard to the fish hatcheries program,
18 would you envision, given the Constitutional Amendment states
19 that it is a return on its investment, that the private nonprofit
20 hatchery program as envisioned in the current 200 million dollar
21 program -- we've got one going in Cordova and we're looking at
22 a couple of others -- would they under the ground rules of the
23 Constitutional change, do you think that they would be a more apt
24 vehicle for this investment as opposed to a State-operated
25 hatchery program?

1 MR. DANIEL: I really think that they can do it more
2 cheaply and I think as far as the capital investment, the initial
3 investment. There are going to be two things in those private
4 hatcheries, one, they have to have good biologists and, two,
5 they've got to have a good business manager.

6 MR. GALLAGHER: Those mother ships, or a like vehicle,
7 how much would they run in American dollars? A million and a
8 half?

9 MR. DANIEL: I think it would be very, very much more
10 than that. 80 foot, 100 foot crabbers now run better than a
11 million dollars. The mother ship, a floating factory ship is
12 what we're talking about would probably run millions of dollars.
13 To displace the Japanese does not necessarily require a mother
14 ship fleet. The only they've got that mother ship there is
15 because it's a distant water fishery, which is the most
16 inefficient method moneywise to produce protein that exists.
17 And with shortage on fuel and various things of this type will
18 really limit their operations in the future. In some cases, we'd
19 need a floater, it wouldn't have to be an extensive operation
20 necessarily as far as size. Again, land-based processing is very
21 often appropriate. The only time it would not be would be in
22 cases where weather conditions or harbor facilities were not
23 available. I don't know what the economics of that is, the cost
24 of a floater as compared to a land-based processing operation.

25 MR. LOVE: What effect do you think all this off-shore

1 operation would have?

2 MR. DANIEL: Well, there is real nervousness among the
3 fishermen. I said one time in a public testimony on this type
4 of question that perhaps it was the case and I heavily emphasized
5 the perhaps, that fishermen were simply paranoid about some of
6 these issues. It came out in the press a little bit later that
7 I had said they were, in fact, paranoid. The problem with most
8 of the fishermen is they can read and they read things -- for
9 example, there have been some reports by the National Fishery
10 Service that indicate vulnerability of crab and shrimp loss one
11 part per million of oil actually dissolved into the water. Well,
12 this makes fishermen nervous. They don't really know what that
13 means but it doesn't sound good. So there is real apprehension
14 about OCS. My only solution to it is not a very sophisticated
15 one. I have suggested repeatedly to the oil companies what
16 needs to be done is take a group of fishermen and go to the Gulf
17 of Mexico and allow those fishermen to talk to their counter-
18 parts. You might want to allow them to talk to some experts
19 too, some professorial types and perhaps people who are experts
20 on pollution problems. But the main thing is the fishermen
21 themselves have more credibility with Alaskan fishermen than
22 anyone else will have. And if you can get these guys to sit
23 down and talk to their counterparts in the Gulf and the guys
24 down there, in fact, say, as some of my lobbyist friends from
25 the oil companies indicate, that they can live with OCS

1 development, I think that will go further to solve the problem
2 than anything else. I think the fishermen would be -- I would
3 be enormously grateful not to feel apprehensive about OCS.

4 MR. LOVE: How much investment capital do you think
5 would be advisable?

6 MR. DANIEL: I really couldn't answer that with any
7 sophistication at all. I would get into figures on what it would
8 cost to rehabilitate the fisheries. I think that figure would
9 probably obtained if the State did the entire job. I believe if
10 we get private industry into it, we can do it somewhat cheaper.
11 As far as developing markets and as far stimulating the harvest
12 of bottom fish, I really don't have figures on that. I just
13 haven't heard any, I don't know that any exist, although they
14 probably do.

15 MR. LOVE: I just wanted to point out in the interest
16 of future deliberations, it would be useful to have some figures
17 given to us. Also if you see the need for an investment in the
18 area of hatcheries and also in building boats or in processing
19 facilities.

20 MR. DANIEL: Well, I can see it in the boat building
21 if you're moving into different fisheries. We are obviously in
22 the salmon industry too efficient at this point in time. If
23 you're using a boat for other purposes besides salmon, perhaps
24 it is justifiable. If you're looking at the standpoint of moving
25 into these bottom fisheries, very definitely we could use State

1 money in that respect. Because the burden right now for the
2 fisherman who wants to develop a new technique or move into
3 something is entirely upon that fisherman. I don't know of any
4 experimental monies that are available except perhaps a very
5 small amount. I could see it there. I see it certainly in the
6 hatchery situation but, again, I want to emphasis that what we
7 are really interested in is the loan program where the State
8 gets its money back. Simply a loan that is repaid out of the sale
9 of surplus fish at the hatchery racks and repaying these
10 assessments on the fishermen.

11 MR. LOVE: You think the big part of it is hatcheries.

12 MR. DANIEL: Well, the bottom fish thing could be
13 tremendously valuable. Right now we have had a tendency to be
14 rather narrow in our viewpoint and look only at the hatcheries
15 because salmon is a glamour fish. And we're in trouble on
16 salmon and I think people recognize that. But I think we also
17 ought to look at those bottom fish stocks very, very definitely.
18 And I can't be as specific there about what the State can and
19 can't do. But 5.1 billion pounds of fish should be worth a
20 considerable amount of money, so if we could move into that area,
21 it would seem to me to be very desirable.

22 MS. FLEISCHER: I want to ask you, for instance, on
23 bottom fish. I don't know anything about them. How renewable
24 are bottom fish? You are not talking about hatcheries when you
25 are talking about bottom fish.

1 MR. DANIEL: No. Hatcheries would only apply to the
2 salmon.

3 MS. FLEISCHER: How do ---

4 MR. DANIEL: Well, it is a more frustrating situation.
5 For instance, our halibut stocks are in big trouble now. There
6 was a time previously when they got so depressed that we simply
7 quit fishing for them for a number of years and they did
8 recuperate. We've got additional problems now because the
9 Japanese -- the halibut are not the target species for the
10 Japanese, but they catch about a 1 percent incidental catch
11 while they're chasing pollack and various things of that type.
12 That just devastates those halibut stocks because these are
13 primarily juvenile fish, you know, immature. They are renewable
14 but it's not the same thing as being able to put a hatchery in
15 and let them go and let them come back to you. The main method
16 of renewal is simply to quit fishing for them. The Japanese and
17 Russians at this point in time have absolutely devastated some
18 of the stocks. We're down on pollack to where we're supposedly
19 harvesting primarily juveniles. We have already gone through
20 ocean perch to the point where they are in grave jeopardy and
21 the Japanese use what is called the pulse fishing technique.
22 They go in and harvest the fish where it is down to the point
23 where they are no longer economically feasible. Then they leave
24 them alone and theoretically allow them to recuperate. However,
25 our biologists don't think they necessarily give them enough time.

1 MS. FLEISCHER: Is there anything that can be done, as
2 far as you know, for renewing bottom fish?

3 MR. DANIEL: We need a better and more careful
4 regulatory regime. Under the new bill, we have the ability to
5 tell the Japanese and Russians who can fish and where they can
6 fish and when they can fish.

7 MS. FLEISCHER: In other words, there will be
8 cooperation maybe.

9 MR. DANIEL: We can insist upon it. There is always
10 the question whether our State Department is going to show any
11 courage.

12 MS. FLEISCHER: I wanted to ask you also about -- some
13 of the other things you have mentioned like tourism and timber
14 and other industries in this State can be a threat, I imagine,
15 to fisheries and I was wondering if the fishermen are part of
16 that decision-making process and whether you are able to cooperate
17 with the timber industry or the timber industry is able to
18 cooperate with you to protect like salmon stock.

19 MR. DANIEL: We have tried to adopt a very cautious
20 attitude toward timber and oil. And certainly do not want to
21 get into the stance of trying to say these two industries which
22 are very, very vital industries in the State should not exist.
23 There is a real apprehension in Southeast Alaska among fishermen
24 as to what is happening on those salmon streams. And we have
25 tried and tried, again, to get as much protection in the salmon

1 streams as possible with prohibiting timber harvest. I certainly
2 think that there is a possibility of mutual existence there.
3 The thing that encourages me too, I don't want to see us just
4 simply throw open the door and say we're not going to worry about
5 stocks because that's the least expensive way to produce fish.
6 With hatchery production, it is interesting that today in
7 Washington and Oregon and B.C., as well as in Japan, their
8 production on salmon is as great as it ever was. In fact, in
9 Japan, far greater than it has been historically. And the
10 Japanese are producing their fish on the island of Hokkaido and
11 Northern Honshu Province and the population pressure there is just
12 unconscionable. There are 6 million people living on the island
13 of Hokkaido.

14 MS. FLEISCHER: So, in other words, they create salmon
15 streams, in effect, so you aren't dependent on the natural
16 streams. That was one of my questions plus the fact that I was
17 reading about a salmon fishery in Washington and apparently part
18 of what happened there was the dams on the rivers. And I know
19 that there are some plans and probably will be more for
20 hydroelectric development here in Alaska. And I am wondering if
21 that can be planned in a way not to interfere with the salmon
22 industry or whether you are part of that decision-making process
23 as to where dams should be.

24 MR. DANIEL: Well, I think there are certainly bad
25 things you can do. We have so many streams to choose from and

1 there are some where it would be very, very distressing -- if we
2 went out and tried to dam up Iliamna Lake, for example. Not that
3 that is going to happen but that is a major spawning area and
4 terribly valuable from that viewpoint. Certainly there are
5 alternatives in most cases where they are not necessarily
6 interfering with salmon. And we would be concerned about that.
7 Hydroelectric projects, without a doubt, are a major feature
8 that caused a decline in the Northwest.

9 MS. FLEISCHER: My question was, are you part of that
10 decision-making process?

11 MR. DANIEL: In a very, very small way. It's partially
12 our own fault. We obviously can become more a part in these
13 decision-making processes. Our organization is a bit new and we
14 have been somewhat preoccupied with limited entry, especially in
15 the last few weeks. But I think the opportunity certainly
16 exists, it's just a matter of our taking advantage of it.

17 MR. FREER: What sort of research effort aimed at
18 better utilization of the fish that were caught in Alaska. I
19 wonder if you saw any need for a continuing type of research
20 program such as that for use of monies from this Fund?

21 MR. DANIEL: Well, we really need to do those things,
22 I think. One of the things that I hadn't really thought about
23 is how desirable -- we've got so many stocks, sea urchin, for
24 example, that are highly valuable in Europe that we are not even
25 touching. We have some abalone down in Southeast. There's

1 probably a long, long list of fish and fishery products that we
2 are not utilizing. Research in those areas would be highly
3 desirable. The National Fishery Service does some of that,
4 probably not an adequate amount. By the way, I did mean to
5 mention earlier in my testimony that with the 200-mile limit
6 bill on the books you may see some Federal money coming into
7 these areas. But whether or not it will be a substantial amount
8 or whether or not it will work to our best interest is still a
9 matter of question. I would certainly say, yes, we could use
10 additional research.

11 DR. LOGSDON: What is the existing capability of
12 Alaska fishermen to take bottom fish?

13 MR. DANIEL: Well, the guys in crab fishing, boats
14 that are quite substantial in their size. And I would say that
15 many of them could be converted. It seems I remember a cost of
16 45,000 dollars conversion, to convert some of these boats over
17 to where they would have a capability on bottom fish.

18 MR. EDENSO: There would be a limitation on the size
19 of the boat.

20 MR. DANIEL: Yes, there are lots of factors.

21 MR. EDENSO: If you're just talking conversion in gear,
22 it is going to be in excess of 50,000 dollars.

23 MR. DANIEL: Okay. Well, I had seen the figures but
24 it's been several months ago, I saw them and they slipped away
25 from me. Some of the guys in Kodiak and on the Chain would tell

1 this story a bit braver than perhaps they should about their
2 ability to move immediately there. I know that the desire
3 exists, but the practicality of the matter, it means gearing up
4 and gearing up not only so far as the boats but processing
5 capability and marketing ability. And considering those
6 factors, no, not close. The boats themselves are much closer
7 than anything else so far as being able to get into the business.

8 MR. WOHLFORTH: This subject is obviously one that
9 would take us weeks of testimony and we want to bear in mind we're
10 just getting an introduction. Hopefully, people like Mr. Daniel
11 will work closely with this Committee and the legislative
12 committees on a continuing and more detailed basis on what he
13 has just been able to give us a brief introduction to this
14 morning. I think I would say you, unless you have a burning
15 question, that we suspend questioning in deference to the others
16 who are here and who may have a time scheduled that they really
17 need to meet.

18 MR. WALDOCK: Mr. Chairman, I would like to ask just
19 one question. Mr. Daniel, I would like to know if there is any
20 research underway at this particular time to see whether or not,
21 if we funded the Fishery Department, whether it is going to be a
22 profitable operation because part of the criteria of the
23 Permanent Fund money has to have a return for the investors.

24 MR. DANIEL: Well, no, I would say that there is
25 probably not much being done there. Not as much as should be,

1 and probably should be very carefully looked at as far as
2 whether you let the money go in the direction of private industry
3 or whether you let it go into any department, whether or not you
4 are going to get an attractive cost benefit ratio. I doubt that
5 very much is being done in that direction.

6 MR. GALLAGHER: We attempted to do some but it is
7 pretty sketchy.

8 MR. DICKEY: I am Don Dickey, president of the Alaska
9 State Chamber of Commerce. I have with me two well-known Alaska
10 businessmen, Mr. Bill Scott, an accountant from Anchorage and Mr.
11 Frank Murkowski, a banker from Fairbanks.

12 I want to first say we can all take pride in the voter
13 response to the Permanent Fund, a two to one overwhelming support
14 I think is an indication that people are interested in seeing
15 the benefits of such a program. I would commend the Legislature
16 for their efforts, Mr. Malone and Mr. Miller and any others I
17 may not have seen, so that the record will indicate they did put
18 the package before the public and gave them a chance to vote on
19 it and this Committee has also. In fact, at noon Tuesday when
20 people were voting on this issue, I had Mr. Edenso as a speaker.
21 So we were confident that the public was going to accept it and
22 we are delighted that you have met so promptly to get public
23 input on the program.

24 Our purpose today, basically, is not to much to offer
25 specific suggestions as to where the funds might be invested but

1 we will, in the future, be specific on that. But perhaps more to
2 speak to the point of the goals, the objectives and the structure
3 that we see might be helpful.

4 I think the Permanent Fund is an exciting concept,
5 properly used can bring untold benefits to the widest cross-
6 section of Alaskans. I think it has also the ability or the
7 possibilities of abuse and, if abused, will create a boondoggle
8 second to none that we've had and of unprecedented consequence.
9 Hopefully, in our testimony I hope to bring that out. Our
10 purpose is to suggest ways that it can avoid the rocks and shoals
11 and that it can be a success.

12 About two years ago the State Business organization had
13 a conference -- convention -- the theme, Can Alaska Afford
14 Prosperity. And it wasn't a facetious question. We were asking
15 ourselves -- most of us that had lived here for a number of
16 years that we seem to thrive best in poverty, perhaps have had
17 more experience with it and when we get prosperous, as we did
18 once, and appear to be threatened again, we seem to have little
19 problems of getting along together or just how that should be
20 utilized, like a family does sometimes when they divide up the
21 pot. So our suggestion today to you -- it is not a new subject
22 to us, asking what we would do with our funds. We've been down
23 this path before and we'll tell you something about that and
24 offer some suggestions on how constructively we think this might
25 be structured.

1 I am going to ask first from Bill Scott. He is past
2 president of the Alaska State Chamber of Commerce. He is Alaska
3 managing partner of the accounting firm of Peat, Marwick &
4 Mitchell.

5 MR. SCOTT: Thank you, Don. There are a couple of
6 things that seem to me important. They are more structural
7 than the on-going things that Frank will mention.

8 Again, in the interest of being very brief, it seemed
9 to me that in the structure of the Fund itself, in the
10 management of it, it needs strong leadership. We have discussed
11 this back and forth and I don't think that facet is disagreed
12 with by many. But it seems to me that it needs to be in
13 perhaps a separate State-created corporation or entity, it
14 doesn't have to be a corporation, that would be answerable to
15 the Legislature. Because it will, in fact, it seems to me to
16 be the Legislature that will set many of the guidelines. That
17 entity then should be headed by an able and strong leader who
18 can implement policy as the Legislature dictates.

19 I believe that the Fund should have constant and
20 on-going review, not only from the financial transaction
21 standpoint but also from an operational analysis standpoint so
22 that programs can be continually evaluated. And, third, it
23 seems to me that what has been referred to in the national press
24 as a sunset provision be part of the enabling legislation. So
25 that, if three, four, five years down the track it is obvious

1 to everyone that the Fund is going awry, that the initial
2 purpose, while apparently valid at the beginning, no longer
3 seems to be serving the wishes, that there can be automatic
4 provisions for change in the structure without going through a
5 complicated political process to arrive at that ability to
6 change.

7 With that, I would like very much for Frank Murkowski
8 to continue our presentation with some comments he has on more
9 specific investment areas.

10 MR. DICKEY: Before Mr. Murkowski speaks, he has
11 many titles. He is president of the Alaska Bank of the North,
12 Fairbanks. He is chairman of the board of the Alaska State
13 Chamber of Commerce. And probably of equal importance for your
14 purpose today, he is former Commissioner of Economic
15 Development and in that capacity had some involvement with loan
16 funds so I think he can add something to your deliberation.

17 MR. MURKOWSKI: Thank you, Don. I would like to call
18 your attention to one of the basis premises of the Permanent
19 Fund in its concept, the statement that the fund is to be used
20 for income producing investment. That really opens up a
21 Pandora's Box. Not only to your Committee, but to the
22 Legislature and the administration, the labor, business
23 community and just the populace of the State as a whole.
24 Because it implies all the grandiose benefits from such a
25 substantial reserve, savings account, or whatever you want to

1 call it.

2 I would like to express some concerns I have directly
3 in this area. And obviously being a banker I am automatically
4 suspect from the standpoint that what I am going to say is
5 basically that I don't want the State to compete with me in the
6 loan business. The reason I say that is I don't feel the State
7 can realistically involve itself in very, very broad loan
8 programs for the benefit, theoretically, of the public as a
9 whole in a very general way because of the politics that enters
10 into these programs once they are established and the lack of
11 independence that a State agency has in loaning funds. I am
12 speaking very general and across the board in this respect. I've
13 been there, I've handled State loan programs and I am very much
14 aware of the political pressure that is brought to bear. It is
15 all well meaning but it results in bad loans and severe losses.
16 This is not necessarily the rule by any means, but there is
17 enough of it to make for a great deal of concern. I think there
18 are some specific programs, loan programs that can be handled
19 and utilized. There are some very successful loan programs
20 within the State. I would point out the Veterans loan
21 program as one. But when you get into these very broad areas
22 of providing loans that are, in effect, high risk. The
23 individual who is living in a community will go to a
24 legislator and say, "I've got a tremendous program here and I
25 would appreciate your help" and he prevails without getting into

1 the credit worthiness of what the application is to the
2 director who is responsible for the function and the pressures
3 begin. And it results in some very, very difficult situations
4 that can be avoided if it is properly structured.

5 I would suggest that the area that you look into
6 initially are some the broad guarantee concepts. There is on
7 the books at the present time, I believe it is called the Alaska
8 State Industrial Corporation which allows the State to use its
9 tax exempt status. The concept I think came into effect, oh,
10 about nine or ten years ago and it has never been used because
11 there has been a reluctancy in the administration to allow the
12 State's credit to be on the line in the concept of a guarantee.
13 It has an application from the standpoint of providing the
14 development of industries that are of high potential but yet
15 high risk from the standpoint of other adequate markets in the
16 State. I would use as an example one, the cement business in
17 Alaska today. We certainly have all the resources to develop
18 a cement manufacturing process but it is questionable whether
19 the markets are here. But a guarantee program where the
20 Permanent Fund could guarantee the bonds has an application.
21 That type of program would result, in my opinion, in substantial
22 new industry. It would not be a tax incentive per se, but it
23 could have a very substantial assistance to the development of
24 the industry.

25 I would suggest too that when thought is given to the

1 concept of participation in loans that you require high
2 participation from the lending institutions, if you get into
3 programs of that nature. I don't think 10 percent is adequate.
4 I think 25 percent is more realistic. Because then the
5 policing is done by the lending institution that is directly
6 involved in the credit.

7 There are some applications in the area of renewable
8 resources that you are going to get a great deal of testimony
9 on. And I think one of the most paramount at this time that
10 this Fund could really get involved in in the form of a
11 guarantee concept would be in the area of agriculture. You are
12 going to hear a lot about fish, mining, tourism, oil and gas,
13 timber and whatnot. But the concept of making large tracts of
14 land available by theoretically using a portion of the
15 Permanent Fund, say, to clear the land. Then get into a lease-
16 back, it's got to be a large corporation, total utilization
17 development concepts, then they would pay it back off of the
18 development of the land, you are creating some basic, new
19 industry within the State. You are creating jobs in a new area.
20 And you're creating obviously substantial markets overseas for
21 the products.

22 So, in conclusion, I would just leave you with the
23 dire warning, if the program does get into an area where it is
24 a broad loaning function, then politics is going to enter into
25 it. And I would hate to see what is going to happen five or

1 ten years down the line because no administrator can hold up
2 under that kind of pressure. I would be happy to answer any
3 questions.

4 MR. GRUENING: Did you say the Veterans loan program
5 was an example of one that ---

6 MR. MURKOWSKI: No, I specifically stated in my
7 testimony that the Veterans program was an excellent program.
8 There are many excellent programs. The Veterans program is not
9 a broad loan program where somebody can come in with anything.
10 It is secured by real estate, the safest kind of program there
11 is.

12 MR. GRUENING: Is that because it's a housing loan?

13 MR. MURKOWSKI: That is one of the reasons, sure.
14 It has specific guidelines and you have got to, in effect, have
15 the collateral value. Specific guidelines. So it takes
16 reasonable discretion out of it because you've got specifics.
17 But you get into areas where you're projecting what the cash
18 flow of a new business is going to be and you've got to be
19 realistic with it and, if it's marginal, that means it is
20 marginal and you've got to look at it that way. You can't kid
21 yourself by saying, "Well, we hope this will happen and this
22 will happen and, therefore, it will work".

23 MR. GRUENING: The fact that it is a home loan as
24 opposed to say participating by the bank. Which factor is
25 important?

1 MR. MURKOWSKI: There is no relationship. The real
2 estate loan stands on its own. You've got guidelines and you
3 loan a percentage to the value, you know what the value is and
4 you look to the credit worthiness of the borrower. If he's got
5 the income to pay for the loan, why, theoretically, he gets the
6 loan.

7 MR. GRUENING: Why couldn't the same kind of criteria
8 apply to any business loan.

9 MR. MURKOWSKI: Well, first of all, any kind of
10 business loan doesn't fall into value. Usually the individual
11 wants to start a business. He's an unknown entity. He has no
12 operating experience. These are the usual type of loans that
13 come into the State. He wants to borrow for the collateral, he
14 has no equity. He might have a great idea.

15 MR. GALLAGHER: I'd like to throw a little light on
16 this subject. When I was in the banking system, we reviewed
17 our reserve for bad debts and 89 percent of our charge offs
18 were commercial loans, 2 percent in real estate, and 9 percent
19 were in installment loans.

20 MR. SCOTT: That says it all.

21 MR. GALLAGHER: We took all of our losses in commercial
22 loans..

23 MR. MURKOWSKI: There is no politics in the Veterans
24 program.

25 MR. SCOTT: I agree.

1 MR. GRUENING: I am interested in why you cannot
2 insulate some of the politics from the business loan situation?
3 You say there are no politics in the banks ---

4 MR. MURKOWSKI: Well, it's a different type of
5 politics. The banker is going to go broke or he is going to
6 eat his bad loans, but with the government it doesn't work that
7 way.

8 MR. GRUENING: My question is, can't we make the
9 people that are administering it responsible?

10 MR. MURKOWSKI: I think the people are responsible,
11 it's the pressures they get. I think that the individuals, the
12 Commissioners that are here would agree with me up to a point.
13 There are several State loan programs in various departments.
14 There has been a coordination in the last few years to get them
15 together and they are getting together. Loaning money is just
16 that, you need some real expertise. And, if you're making a
17 secured type loan, there is a certain application of rules and
18 regulations, that's one thing. But when you get out in the area
19 of making a credit judgment where you don't have those sound rules
20 to utilize, you've got, say, a new business, you've got to have
21 somebody who has had some experience. And that's fine, you can
22 get that theoretically but then you've got the legislator and
23 I've seen it happen time and time again where you've got the
24 constituent working on him. He's got a million things to do and
25 one of them is not to evaluate that guy's loan. So he says,

1 "Well, you ought to talk to Joe Blow who is the director of that
2 program" and he goes down and he says, "If there is anything you
3 can do for Joe Blow" -- that's when the pressure starts and it
4 really can develop. And, if you can figure out how to insulate
5 it from politics, more power to you.

6 MR. GRUENING: I am asking for your suggestions.

7 MR. MURKOWSKI: I have no suggestions. I don't think
8 it will work.

9 MR. MOTLEY: As administrator of 9 of the 11 programs
10 you are talking about, I would like to discuss the matter with
11 you.

12 The Veterans Loan program as of the first of this year
13 had a delinquency of less than 2 percent. The average for all
14 the State banks, including your bank, is 3.25 percent, 31 days
15 or more. So I think that stands on itself there. In regard to
16 the business loans, I don't think you are entirely correct when
17 you say there is no collateral. I think all of the statutes
18 affecting all of the business loan programs except one which is
19 the new one of child care centers, requires collateral. What
20 you say is correct, it can happen in the way you have talked.
21 We inherited two loan programs from your old department, long
22 after you left. One of them was the Alaska State Development
23 Corporation. Those loans were loans that were made, you may
24 recall, that were bought from banks. They had 16 out of 21 loans
25 delinquent. The Small Business Development Corporation had 18

1 out of 21. Today there are 3. I submit to you that it can be
2 run. You use the same test that banks use and that is a good
3 underwriting procedure. You can insulate them from the political
4 system. I think the record is there for it. I agree with you
5 that the risk is there, the political risk of legislators and
6 administration, but I think it can be overcome.

7 MR. MURKOWSKI: The Alaska Development Corporation
8 hasn't functioned other than in a cleanup capacity.

9 MR. MOTLEY: That is a fulltime job, that cleanup.

10 MR. MURKOWSKI: So that has been the basic utilization
11 of that office, it hasn't been functioning so far as taking on
12 new loans.

13 MR. MOTLEY: That's right, just cleaning up the bad
14 ones that were bought from the banks.

15 MR. MURKOWSKI: That is absolutely correct, there's no
16 question about it. It was a bail-out for the banks.

17 MR. WOHLFORTH: Mr. Waldock.

18 MR. WALDOCK: I would like to direct my question to Mr.
19 Dickey here. Rather than to reinvent a new wheel as far as a
20 vehicle to handle out Permanent Fund, I would like to know if you
21 would give your comments or the comments of the Chamber of
22 Commerce in regard to the use of the vehicle that Frank Murkowski
23 was talking about and that is the Alaska State Development
24 Corporation. Realizing there are a few pitfalls with it, could
25 you also comment about any safeguards that might be put in there

1 to beef that thing up?

2 MR. MURKOWSKI: Mr. Motley, I think that is under your
3 department now.

4 MR. MOTLEY: The suggestion you had I think is an
5 excellent one. I think if you had the banks in there with you
6 then everybody has something at stake and you have two under-
7 writing criteria.

8 MR. MURKOWSKI: If you keep the banks in enough and
9 don't let them off with 5 or 10 percent. That program that
10 Dennis is referring to, Tony, I think you will agree has a real
11 application. It just hasn't been used because its been of real
12 concern. Eric, I think you were involved.

13 MR. WOHLFORTH: I am aware of the Alaska State
14 Development Corporation experience, which I don't think is as
15 bad, frankly, that a lot of people, maybe the public has in mind.
16 Back in '63 when it was started it did finance tourist
17 facilities and other things that were needed and might not have
18 gone forth. There was no question they took out some bad paper.
19 And I think the point of a higher degree of private participation
20 is absolutely the key to any reinstatement of that kind of
21 vehicle.

22 MR. DICKEY: I might mention we worked about two years
23 to get that first program through. Its intent was perfect, its
24 performance was not. To respond to Mr. Murkowski's suggestion,
25 I think one of the reasons there was too small involvement with

1 the private banking institutions. A greater partnership, I think
2 they wouldn't walk away from it, they would be quite interested
3 in how the thing turned out.

4 MR. LOVE: Mr. Murkowski, you said one of the benefits
5 of having banks make the loans rather than having government
6 make the loans is the bank has to take the loss.

7 MR. MURKOWSKI: Rather than the public.

8 MR. LOVE: But if the State gets into the business of
9 guaranteeing loans that the banks make, doesn't, in fact, the
10 bank make loans that the public takes a loss?

11 MR. MURKOWSKI: Well, as Mr. Motley indicated, if the
12 bank has a substantial participation percentage, why, obviously
13 the bank is going to spend a great deal more time analyzing the
14 risk than if it had a 100 percent guarantee.

15 MR. LOVE: Say a 80 percent guarantee. My point is,
16 the more the government gets involved in these loan programs, the
17 less the bank has a stake in it. It seems to me --- You would
18 normally have just a free market situation and I am just, you
19 know ---

20 MR. MURKOWSKI: What I am suggesting to you is the
21 question -- just on specific program -- loan programs, is it the
22 best interest of all concerned that the State go into the direct
23 lending programs or utilize the expertise that exist in the
24 private sector by putting certain stipulations on the percentage
25 of participation required by the banks, and then does the State

1 come in and utilize its principal put into this or does it
2 guarantee a specific portion. You get the best of both worlds
3 under the guarantee concept because you haven't used the principal.

4 MR. LOVE: So you think the primary benefit of
5 channeling loans through banks is because banks are -- the
6 primary benefits is because banks can better assess risks. That
7 would be the primary goal.

8 MR. SCOTT: You are utilizing existing expertise.

9 MR. GALLAGHER: It seems like there are a whole lot of
10 goals for the Permanent Fund. I know that the banks may be the
11 best people to assess risks, but it seems like there are other
12 goals we are going to have -- social goals. The point is, the
13 strength of dealing with the banks is evaluating the area of risk
14 by requiring bank participation. And you develop some integrity
15 in the process.

16 MR. MURKOWSKI: I agree with you. But I would say that
17 the area that banks generally fall into, which is the small, or
18 short term loan, they have the expertise to continue in that area.
19 If you are talking about providing some of the resource
20 development that we need, I think this is where the State steps
21 in. As the example I have given, a cement plant, the State has a
22 vehicle through its guaranteed program, the agricultural ---

23 MR. MOTLEY: Large single loans.

24 MR. MURKOWSKI: Large single. The tremendous impacts
25 on the State is where I see the Permanent Fund having a tremendous

1 application.. I don't think the State would have to use the
2 principal in the Permanent Fund, the State could use the
3 guaranteed concept of the Permanent Fund.

4 MR. MOTLEY: For large loans.

5 MR. SCOTT: As an aside, while it is almost certain, if
6 not extremely probable, that any loan that is made within the
7 State will have social impact. And the extent that it creates a
8 better economy and new jobs, that social impact will be good
9 under all the other guidelines that we go by. I don't believe
10 that the social impact should be the prime consideration on a
11 loan made from the Permanent Fund, or anybody else.

12 MR. LOVE: Do you think (inaudible) should be the
13 principal goal of the Permanent Fund of do you think that we
14 should look as principal goals as standards of the quality of
15 life and whether or not certain types of development are
16 necessarily good. I just wondered which direction we should
17 work for?

18 MR. SCOTT: Why can't we have both?

19 MR. LOVE: Will you agree that our goals are going to
20 be quality of life first and then we're going to look towards ---

21 MR. SCOTT: Every goal I ever had in my life was
22 toward the bettering of the quality of my life and in the
23 process of everybody else's that I dealt with.

24 MR. LOVE: The reason I bring this up, it seems to me
25 there are going to be times when these can be best achieved

1 through increased economic growth and times when it would
2 adversely affect these.

3 MR. SCOTT: That to me has to be the Legislature's
4 decision and not the administrators of a loan program. Separate
5 the two. I think the two are separable and don't directly affect
6 one another except incidentally. You're talking about different
7 policies. We're talking about policies of investing and loaning
8 and regenerating from the existing Permanent Fund. I don't think
9 we're talking about trying to mix that in with social
10 legislation or social goals of the State. They deserve attention
11 but ---

12 MR. LOVE: I certainly agree that the legislators
13 should be the people who provide the basic framework. Should we
14 take a look at how the investment policies affect concentration
15 of wealth and this sort of thing?

16 MR. SCOTT: I don't understand your question.

17 MR. LOVE: My question is, should we look in terms of
18 who benefits the most economically by the investment, how is the
19 wealth concentrated, who approves of the actual benefits,
20 whether it is sub groups of society and that sort of thing.

21 MR. MURKOWSKI: Motherhood, everybody is in favor of
22 that. I'm in favor of a cement plant because it's going to lower
23 the cost of living in the State of Alaska ultimately.

24 MR. FREER: You made several remarks about I guess you
25 call it an anti fail-safe mechanism. In case the Permanent Fund

1 started to get off track there would be some mechanism for
2 calling a halt. This may be looking down the road quite a few
3 years, but there might come a time when the Fund doesn't need
4 any more. It might be drawing off revenue from the State which
5 would be better used for something else than going into a
6 Permanent Fund. Is that something that you might have had in
7 mind?

8 MR. SCOTT: That is inherent in -- when I'm speaking
9 of the sunset situation. We know of funds, of course, in other
10 States where there was no provision for some ultimate
11 termination and the fund continued to grow and nobody wanted it
12 any more.

13 MR. FREER: That is inherent in what you were saying.

14 MR. SCOTT: I think you have to have the ability to
15 stop it or modify it at a given point.

16 MR. WOHLFORD: Any more questions?

17 MR. EDENSO: I think this is directed at Mr. Murkowski.
18 You were talking about loans and such, like business loans, any
19 different kind of loan program the State may have. We are aware,
20 at least I am, I have had some experience with State loan
21 programs. We do have fixed interest rates an allowable range of
22 interest rates and allowable terms. I wonder if you could
23 address yourself to what you think might be reasonable terms, for
24 example, a small loan program, whether it should have 10 years or
25 20 years, or 5 years, or whether or not it should have a fixed

1 interest rate, which we do now, 8 percent; or should the interest
2 rate be tied to some kind of market rate of interest or that
3 kind of thing? Terms, years, dollar amounts, ceilings, 100,000,
4 200,000, and interest rates, whether it should be tied to a
5 market rate of interest.

6 MR. MURKOWSKI: Well, I can't necessarily come up with
7 a blanket suggestion. I would comment with the application that
8 obviously the borrower needs 10 years instead of 5. If he can't
9 make it on 5, well, then realistically he's got to have 10. It
10 is different in each particular case. The longer you put it out
11 the more risk you have in subsidizing interest rates. I think
12 there was a time when the Veterans Loan Fund was 7 percent when
13 the price of money was greatly in excess of that. The State was
14 effectively subsidizing the cost of money. Is that in the best
15 interest of the State? I don't think it is.

16 MR. EDENSO: Probably what I am asking is, how much of
17 a subsidy do you think would be reasonable in your small business
18 loan program?

19 MR. MURKOWSKI: Well, obviously, from the private
20 sector, I don't like the word subsidy because of what it implies.
21 I don't think that the State loan programs per se should be
22 subsidy programs from the standpoint of the application of the
23 word subsidy.

24 MR. EDENSO: Mr. Murkowski, there is a hidden question
25 in there and it is, if we tie it to a market rate of interest

1 which is what the banks very nearly do in this State, and we are,
2 in fact, in danger of competing with the banks, commercial banks,
3 in their area of activity, which is to provide the business
4 community with business loans and with market money. If you get
5 into that, and, again, we're talking about a potential
6 competitive stance that a portion of a Permanent Fund may or may
7 not have with the banking community. I believe you, as a banker,
8 may have some specific ideas on that.

9 MR. MURKOWSKI: I think you have got to establish the
10 priority that the Permanent Fund is going to apply itself to.
11 How broad you want to get, if and when, or, if you get into a
12 loan program on an expanded basis. And then, realistically, how
13 you evaluate the services of the private sector as it serves the
14 public in its loan needs. And should you only come into those
15 areas that the private sector can't serve adequately. And who
16 makes the decision whether the private sector is serving the
17 public adequately. Obviously, if the individual comes to the
18 private sector and is rejected because of the risk, he's going
19 to go to the public sector and say, "We need more service from
20 the public sector because the private sector isn't servicing our
21 needs". And the public sector is going to respond because its
22 obligation is to respond to the public. But then if the public
23 sector theoretically makes that loan that is high risk and it
24 goes sour, the taxpayer pays for it. So you get into evaluations
25 here and judgments that you're going to working at for a long

1 time.

2 MR. EDENSO: I don't wish to argue with you but you
3 also mentioned credit worthiness in your testimony, and credit
4 worthiness, I am sure we all know, is one of the things
5 taken into consideration in looking at a potential loan. Mr.
6 Motley, I am sure, has had some experience with the State business
7 loan program, credit worthiness. And we know that these, in the
8 public sector, are designed for receiving high capital risk types
9 of services. However, under the proposed Permanent Fund we have
10 no designated area there the thing would be housed right now.
11 Is that something that you have in the back of your mind or, as
12 a banker, do you see the Permanent Fund providing high capital
13 risk venture capital money to businessmen in this State, or
14 through the banks to businessmen in this State?

15 MR. MURKOWSKI: I would have to decline to comment
16 directly on that. How do you evaluate when something passes from
17 high risk to reasonable credit. High risk, you're pretty darn'd
18 sure you're going to take a loss.

19 MR. EDENSO: I am sure there are standards for
20 comparison. At looking at other loan programs in the Lower 48,
21 you do have venture capital firms that do this all the time.

22 MR. MURKOWSKI: But the rates they take are excessive.

23 MR. EDENSO: Exactly. You do have a high capital cost
24 involved with venture capital. Those who are willing to loan in
25 the venture capital area are also looking for a high return on

1 their investment.

2 MR. MURKOWSKI: Some of them take an equity position too.

3 MR. EDENSO: On the opposite side of the coin, or on
4 the other side of the coin, you do have stable businesses that go
5 belly up. Part of it we know has to do with management. However,
6 again, we do look at venture capital type loans in the
7 Permanent Fund -- will this be in direct competition with, or do
8 you see it co-venturing with banks as well. In other words, are
9 banks going to step into a venture capital on a partnership basis
10 with the Permanent Fund?

11 MR. MURKOWSKI: I don't know. I can't give you a
12 definitive answer.

13 MR. EDENSO: I have one other question. Would it be a
14 consideration for the Permanent Fund on a loan policy to loan
15 directly to a borrower, bypassing the banks entirely? How do you
16 view that. Again, that is leaning more toward a competitive
17 attitude with the banks. For example, in a very large size loan,
18 such as 10 million dollars or, say, 5 million dollars, for 20 or
19 15 years, something of that nature, you know, whatever interest
20 rate you might want to select. Do you see a problem with that?

21 MR. MURKOWSKI: Yes, I do, very definitely. I see a
22 problem in the concept of the State developing a huge, gigantic
23 overall, total-encompassing series of loan programs. If they get
24 into that, they might as well buy out the banks. Theoretically,
25 at least, they have the capital in the Permanent Fund to do so

1 and run a gigantic State bank. The we're just one step away from
2 a welfare state then. You'd never be able to control the
3 politics in it. I would suggest that you look hard and long at
4 your loan programs because the problem is administrations change.
5 State loan programs change with administrations. I think this
6 particular administration has done an outstanding job with the
7 loan programs they have.

8 MR. EDENSO: One of the purposes of my question is that
9 we do have a very rapidly growing influence or segment in the
10 business community in Alaska with 12 Native regional corporations,
11 who have potentially a very high need or desire for capital. And
12 they want to, in fact, use the credit, or somebody else's money,
13 to the maximum extent possible to substantially influence their
14 income opportunities. Suppose they do express a strong desire
15 to participate in a Permanent Fund, would you see the banks as
16 well participating in this kind of a development activity or
17 lending activity?

18 MR. MURKOWSKI: The experience, I think, that most of
19 the banks have had with the Native regional corporations is their
20 effort to acquire whatever their particular interest is. They
21 are in a position to put in an equity contribution that makes the
22 long-term financing available for whatever they have in mind. So
23 I don't think they really, at least at this point, have a problem
24 as far as securing the private sector long-term funds.

25 MR. EDENSO: I am not referring to a problem. I am just

1 wondering if there is an existing vehicle, or there may be a
2 problem at some point in time with that.

3 MR. WOHLFORTH: Part of the work session this
4 afternoon deals with the structure of the Board or whatever it is
5 that administers the Fund. I am wondering if any of the three
6 of you would care to comment, at least tentatively, on how you
7 would like to see such a Board structured. I am thinking, if
8 you want appointments subject to the approval of a governor?

9 MR. KERTTULA: I wonder if I could interject something.
10 This is more of a comment, Frank. If you are going to use a
11 banking mechanism for screening short term or intermediate loans,
12 you have to have a number of fail-safes. And the State has had
13 a very bad, unfortunate relationship over the years with you
14 fellows. Three come to mind. The hundred million wasn't
15 much invested in the State to begin with and we got some pretty
16 substantial "too bad, little boy" comments from fellows of such
17 substance as the president of the First National. Two, we were
18 foolishly using you fellows as a mechanism for investment on
19 Wall Street in the equities, you lost millions for us and showed
20 no great interest in getting yourselves up at 3:00 or 4:00 in
21 the morning and getting on that Street early. And, three, you
22 destroyed the State Development Bank, which was an interesting
23 mechanism, which we would have put a hundred or two hundred
24 million dollars into when we have the nine hundred million, if
25 you hadn't mishandled that. Bailed out some bad loans. And the

1 banks did finally come and pick up, some of you didn't, because
2 of political and other pressures. We haven't had a good
3 relationship with the banking community for these reasons.
4 We're going to have to build some fail-safes into any programs
5 we use. One, that you can't use existing loans on your books
6 that aren't going good. Two, that as of the date of your request
7 for any facility for the loans, none of those have been before
8 you before. We've had a lot of bad relationships with the
9 banking community where they're going to have to roll a peanut
10 with their nose for a long time to overcome. Now, I favor ---

11 MR. SCOTT: We are not here representing the banks.

12 MR. KERTTULA: Now, I made a position, and I think
13 these should be remade. You're going to have to develop some
14 substantive method of showing us that we're not going to get
15 screwed a fourth time by dealing with you fellows. There's
16 a happy possibility of your using your screening expertise, of
17 your willing to put up substantial amounts of money to
18 correspond with the State's investments. All those things will
19 help. We've had some pretty bitter experiences with you guys.

20 MR. MURKOWSKI: I think those of you who are familiar
21 with the times of sale of the stocks that the State had acquired,
22 the market was at an all-time low. If we had sold those stock
23 within the last three months, we would have made a handsome
24 profit. You go into the market and you take your chances.
25 I obviously take issue with the generalization that the banks

1 lost the State money under the table or above the table or
2 whatever. It was a matter of when they sold.

3 MR. KERTTULA: But we couldn't get them to actively
4 participate on the Street on the method that had been suggested.
5 We couldn't get them to get in there early in the morning.
6 They were late on the Street. Those little suggestions found
7 no adherence to.

8 MR. MURKOWSKI: I assure you they were working. It was
9 a matter that the market went down. Maybe there was some poor
10 advice on some of the stocks that were purchased. By the same
11 token, those same stocks did come back. Be it as it may, the
12 decision was made to sell, and they sold, and they sold at the
13 bottom of the market and there was a loss.

14 MR. KERTTULA: That was a political decision, I suppose.

15 MR. MURKOWSKI: If it had been hung out for another
16 six months or another year, it would have worked. Anyway, I
17 agree with you. We've got a situation now where we've got a
18 Permanent Fund, the question is, how do we work together to make
19 it work. And a fail-safe system has got to be in there. It
20 wasn't obviously in the Alaska State Development program. That
21 did some good things but there was provisions where banks came
22 in and got bailed out of bad loans and it is my testimony that
23 that is wrong and shouldn't happen again.

24 MR. MOTLEY: I think I see some common ground between
25 the Senator and Mr. Murkowski, and that is in the area of

1 participation in loans. If everybody has enough into the game,
2 everybody scrutinizing the underwriter, I think there is merit
3 in pursuing the guarantee. Candidly, I don't like guarantees
4 because I think you have the lower end of the level of your
5 underwriting criteria. But, if structured right, I think you
6 can keep the underwriter criteria up there.

7 MR. WOHLFORTH: I really wonder at the productivity
8 of reliving some of these things. If one looks at them, maybe
9 there is a whole range of judgments and institutional factors
10 that weren't what they should be. But we are trying to go
11 forward and look forward. What sort of structure do you see as
12 appropriate for the institution, corporation, whatever it is
13 called now. The range of structures are as many as one can
14 think of. Directly voted by the people is one. Secondly,
15 appointed by the governor and confirmed by the Legislature for a
16 fixed term, nonremovable except for gross dereliction of duty.
17 No. 3, appointed to serve at the pleasure of the governor, which
18 is the composition of most of our State boards and agencies, I
19 think with the sole exception of the Board of Regents and maybe
20 the Utility Commission. Have you given any thought to this? Do
21 you want to comment on it. It is also, I might say, the
22 subject of discussion this afternoon.

23 MR. DICKEY: It was, of course, passed on Tuesday.
24 We have spent two days discussing that and arriving at the same
25 philosophy that you have that, yes, it is a problem and it is

1 very important. We would like to reserve the right to come back
2 and specifically address that. I think it is a key to this thing.
3 We don't want to duck it at all. We want to come back in more
4 detail. We appreciate the opportunity to be here and I would say
5 at least the majority of the Committee was friendly -- all. We
6 hope some of the suggestions will be of value. I am sure groups
7 such as the Native corporations, the banking, and savings and
8 loans groups, conservation groups, other consumer groups will
9 come before you, as they should. I think that was one of the
10 commendable things on the capital relocation, regardless of what
11 you voted, at least the public was heard. And I think this
12 Committee is starting out on that step and I commend you.

13 MR. WOHLFORTH: Thank you. I wonder how many more in
14 the room this morning desire to testify. Three more.

15 MS. FLEISCHER: I am really looking for some
16 information. I don't really understand the dividing line on
17 subsidy. Isn't guaranteeing loans, say for a high risk cement
18 industry with public money a form of subsidy? Or, if we use
19 public money or bonds to build roads or hydroelectric plants, to
20 help the mining, manufacturing industry, isn't that a form of
21 subsidy? Or do you see that as a different kind of subsidy?

22 MR. MURKOWSKI: It's an interpretation obviously. If
23 the mine can't be developed without it and then the road is built
24 theoretically to open the mine, it provides jobs, it provides a
25 tax base for the State and so forth. So it is returned,

1 theoretically.

2 MS. FLEISCHER: Theoretically, wouldn't there also be a
3 return, say, on other forms of subsidies?

4 MR. MURKOWSKI: Yes.

5 MR. SCOTT: You can build a return into any program. A
6 guaranteed program could provide a percentage rate in exchange
7 for the guarantee. It doesn't have to be a loan of money to
8 justify a rate of return.

9 DR. LOGSDON: I don't know how many high risk loans
10 the banks make, but do the banks participate in equity in high
11 risk loans?

12 MR. MURKOWSKI: No. Prohibited by law. In Canada
13 banks can do it and in most foreign countries.

14 DR. LOGSDON: Do you see this as a possibility for a
15 loan fund on long term high risk?

16 MR. MURKOWSKI: With the State taking an equity? Not
17 in the overall application. A road to a mine, that is an equity
18 in that the State put the road in, it's for the public benefit.

19 I would like to just clarify for the record, in case
20 anybody misunderstood my intent. I am harping to some extent on
21 the pitfalls of broad, general loan programs. I think this
22 administration particularly has done more to funnel, coordinate
23 and get control of them. I think Tony agrees. Spent a lot of
24 time cleaning up the debris from other administrations and has
25 done an outstanding job of it. As far as the Alaska State

1 Development Corporation, I am not here to defend it or condemn
2 it but the point that it didn't work in the concept that it was
3 designed to do but it did do some good things. I wasn't in
4 politics at that particular time.

5 MR. WOHLFORTH: Gentlemen, we certainly appreciate your
6 participation. Mr. Smith, Central Alaska Utilities.

7 MR. SMITH: Mr. Chairman and members of the Committee.
8 I would like to represent, in effect, a program that we took to
9 the Legislature in 1974 and again in 1975, in support of a fund
10 to create a source of long term financing for public utilities
11 operating in the State of Alaska. It might be somewhat
12 redundant but the argument is still entirely valid. In the
13 presentation that we made before Senator Kerttula's Commerce
14 Committee supporting Senate Bill 116, the testimony was given
15 in April of 1975. The bill was well received, it did not go
16 forward, however, in the press of other business. In fact, I
17 presume that there was inadequate funding available to do much
18 with it.

19 I represent two entities. My name is Robert Smith,
20 I am president and general manager of Central Alaska Utilities,
21 a water utility supplying the suburban area in Anchorage. We
22 have roughly 9,000 customers, we are serving a population in
23 excess of 30,000 people in the Anchorage area. I am also
24 president of the Alaska Utilities Association, which is an
25 association of regulated utilities throughout Alaska consisting

1 not only of water utilities but gas, telephone, electric, refuse
2 and various other utilities that are regulated by the Alaska
3 Public Utilities Commission, of which there are some 143
4 different utilities. Now, of those 143, 33 are public or
5 government owned such as municipal utilities. 95 are investor-
6 owned utilities. And 15 are quasi-public or co-ops. All of
7 which then represent and serve people entirely within the State
8 of Alaska.

9 In the interest of saving time, I will just highlight
10 the presentation that I gave before Senator Kerttula's
11 committee and would certainly be happy to answer any questions.
12 The Alaska Utilities Association, as such, does not represent
13 or have membership of all of the regulated utilities, many of
14 which are quite small, some of them fairly substantial. But of
15 the 18 member utilities, some 55 to 65,000 people are actually
16 being served or are represented by those utilities.

17 One primary difficulty that we all have faced
18 characteristically over the years, and this is a national problem,
19 not just in the State of Alaska, but the utilities have a great
20 deal of difficulty in obtaining long range financing for the
21 development of their facilities. Primarily, facilities such as
22 reservoirs, transmission lines, extensions to serve new areas
23 and source facilities such as wells and treatment plants. It is
24 not apparently to the banking community or the financing
25 community an attractive investment. However, the utilities are

1 one of the most stable operations anywhere in the country. Our
2 product is absolutely essential to the maintenance of life and
3 health. A community cannot grow, expand, or really even exist
4 without the use of those utilities. Our customers are not
5 subject to the vagrancies of inflation, particularly in a
6 transient economy. Once the people are being served, if the
7 community, unless it is abandoned, continues to use our service
8 on pretty much of a level. And the great difficulty that we
9 find is we build an installation that has a life from anywhere
10 from 10 to 50 years, the 10 year would be a mechanical portion
11 of the system. 30 to 50 years is the normal life of pipelines,
12 reservoirs and the type of installations that we need to
13 distribute our product.

14 Our problem has been we are virtually unable on the
15 public financing market to obtain financing in excess of 7 to 10
16 years. The lending agencies just are not interested in that
17 type of an institution or business. I think possibly because it
18 is a low risk, low return type of operation, this has had some
19 effect on obtaining long range financing. But generally we have
20 had to operate on a long range improvement with very short range
21 financing which puts an extremely severe burden on the utility.
22 And the customers, in turn, either have to pay the higher cost
23 or do without the service. We are in the process now of
24 constructing two reservoirs in our own system, without which the
25 area that we serve would have substandard fire protection, as an

1 example. We can provide the water necessary just to keep the
2 system going without those reservoirs. But by providing the
3 reservoirs, we offer a substantial benefit to the areas plus a
4 degree of fire protection that we feel the customers are
5 entitled to. If we can't finance them, we can't build them, it's
6 just as simple as that.

7 We are also anxious that a program be established to
8 set up a fund whereby those utilities that are regulated, or are
9 designated as public utilities, all of which are regulated by
10 the Alaska Public Utilities Commission, would have a source of
11 financing available to them at a long range reasonable rate of
12 interest. We are not asking for a grant program. I don't believe
13 in it. I have operated both in the private sector and the
14 public sector for many years professionally in this capacity.
15 I don't believe in a grant program per se in this particular
16 situation where there is a possibility of return. We feel that
17 such a fund, if established, would be self-sustaining, it would
18 have an earning power. And we are willing to provide that
19 earning power on the base of our business operation. Now, our
20 suggestion is, and it is not a critical or a magic figure, that
21 a revolving fund maintained in the order of 10 million dollars
22 would probably be adequate, at least for the time being, with
23 the sounding that we got through various utilities. There could
24 be a restriction as to the amount of funding provided to any
25 given utility in any given year. This is no problem. It should,

1 however, have the basic criteria that, provided it is a proposition
2 of reasonable risk, that long term financing be available, in
3 excess desirably of 15 years, hopefully, in the order of 20, 25
4 or even 30-year financing.

5 The problem is, if we go out to build an improvement
6 that has a 30 to 50 year life, it's depreciated on that basis.
7 We depreciate our system essentially on a 33 year life. If we
8 have to fund it and pay the funding off, pay the loan off in a
9 5 to 7 year period, it is a severe burden on the utility. The
10 cash flow has to be generated and the only place that that can be
11 generated is from the customers. This is set up in the rates
12 and the customers obviously have to pay the bill and it puts a
13 burden on them, or they don't get the service.

14 I do have copies of the testimony that was given
15 before the Committee, which I believe explains the situation and
16 I would be happy to leave those with the Committee. We have
17 several letters that we received from members of the Association
18 regarding their feelings concerning such a Permanent Fund and
19 their anticipated use of such a fund. We have letters from
20 the Light & Power Company, Kenai Utility Service Corporation,
21 immediately available. All of whom have expressed sincere
22 interest in the funding. We have had verbal expression from many
23 of the members of the Association along this same line. I also
24 have a copy of the bill that was introduced, Senate Bill 116
25 together with letters that we have sent to legislators outlining

1 the problem, expressing our feelings as to the need for this
2 kind of program. And a letter of information also that was
3 sent to the Alaska Utilities Association membership detailing
4 what we are trying to do and soliciting their support.

5 I have just touched on why that fund is necessary.
6 We feel it is necessary. We feel it is a good risk. Money that
7 will be spent entirely within the State of Alaska and the
8 benefits would be entirely for Alaskans. We are asking for a
9 program in which monies would be borrowed and they would be
10 repaid with interest. The key to the whole situation is that we
11 need a vehicle whereby funding is made available to utilities
12 which are vital to the existence economy, health and happiness
13 to the people of the State of Alaska and which are essentially
14 not now available. That is essentially our pitch for this
15 program.

16 MR. GALLAGHER: Is it not true, Mr. Smith, that with
17 the existence of the public utility any subsidy, I am thinking
18 in terms of interest rate, does get passed onto the consumer
19 through the rate making process?

20 MR. SMITH: That's correct.

21 MR. GALLAGHER: Both for the private and the public
22 utility.

23 MR. SMITH: Absolutely correct. The cost of doing
24 business is paid for by the customer whether it is in a
25 department store or a utility company.

1 MR. LOVE: As I understand, you want long term loans.

2 MR. SMITH: Long term loans with a reasonable rate of
3 interest is what we are suggesting.

4 MR. LOVE: What is reasonable rate of interest?

5 MR. SMITH: 3 percent, 9 percent I believe is the
6 ceiling on the existing funds now.

7 MR. LOVE: As I understand it, the basic problem in
8 financing utilities isn't the problem of the interest rates, it's
9 the problem, it is securing a long term loan.

10 MR. SMITH: The key problem is the term, not the
11 interest rate. Obviously, the higher the interest, the more the
12 customer has to pay for the money and the service. However,
13 that is not as big a problem, it can be overcome and still
14 operate within a reasonable area provided we can get the term.

15 MR. LOVE: If the State gets in the area of making
16 loans to utilities, do you think that would raise the question
17 of whether or not the Permanent Fund be used to promote public
18 ownership of utilities?

19 MR. SMITH: I think they are two and completely distinct
20 areas. I really don't think that one has any bearing on the
21 other. I have spent about 12 years operating public utilities,
22 City Engineer, and Public Works Director, and I have during the
23 entire period of time always felt that private industries supply
24 whatever services they can feasibly and government only then
25 should supply those that cannot be done privately. In answer

1 to your question, I think they are two separate areas. I think it
2 should stand on its own merits as a good business investment.

3 MR. WALDOCK: Mr. Smith, if the Permanent Fund should
4 find that investing in the utilities is a prudent investment,
5 what kind of return could we expect on our money?

6 MR. SMITH: In terms of an interest rate?

7 MR. WALDOCK: Yes.

8 MR. SMITH: Well, that obviously is going to be up to
9 the Legislature to decide. I believe interest rates on the
10 existing funds are in the order of 8 to 9 percent.

11 MR. WALDOCK: 8 to 9 percent.

12 MR. SMITH: Those exist now, I understand.

13 MR. GALLAGHER: If we go back over a period of time,
14 we will see that in 1951 long term low interest was in terms of
15 3 to 4 percent. And if you look at the inflation rate in that
16 period of time, it would be maybe 1 percent. Then go back to the
17 late middle '50's you will find that long term low interest was
18 in the terms of 5 to 6 percent. In that period of time,
19 inflation was 3 percent. Today inflation may be 7 percent long
20 term. And that is why rates of 8 and 9 percent -- again, it's
21 really an adjustment on the rate of inflation and not -- economics
22 haven't changed since then.

23 MR. SMITH: Yes, I agree.

24 MR. WOHLFORTH: Is there a question of whether or not
25 it should be market rate, is that what you are essentially saying?

1 MR. SMITH: Well, that isn't really our question. Yes,
2 I feel it should be somewhere related to market rate, yes,
3 absolutely. I don't feel that it is our position to attempt to
4 set the rate, however. And this is why I phrased it a reasonable
5 rate of interest, because I think it should be. I honestly do.

6 DR. LOGSDON: If I understand you correctly, are you
7 suggesting that the Permanent Fund should be subdivided into
8 categories? I notice that you have talked in terms of 10 million
9 dollars as a separate fund within the Permanent Fund.

10 MR. SMITH: I would for the particular reason that --
11 possibly it is somewhat selfish, but I think it was also
12 mentioned by Mr. Murkowski in his testimony, it does designate
13 a particular area with a particular level of financing so that
14 the utilities have some means of planning and programming and
15 also the State does too. They know what areas they are working
16 in and with what amounts and are not in a position jockeying, say
17 for example, the fisheries over the same funding to see who gets
18 there first. So I would like to see it designated at a particular
19 level or a particular fund for that specific use, and that is the
20 use of utilities. I am not trying to relegate this to just water
21 utilities or just investor owned water utilities or whatever.
22 Although I think that would be the heavier use since municipal
23 utilities do have the availability of bond funds that we don't
24 have. But I would like to see it designated as a particular
25 fund, yes.

1 MR. MOTLEY: Just a recap. Is the main resistance in
2 the private sector in raising money coming from the term, the
3 length of the term as opposed to the interest rate?

4 MR. SMITH: Basically, that's true. That's absolutely
5 correct.

6 MR. MOTLEY: Mr. Chairman, I must tell you I find it
7 most refreshing that Mr. Smith thinks 8 or 9 percent is a
8 reasonable interest rate. Other groups that we deal with on
9 occasion believe 2 or 3 to be reasonable.

10 MR. SMITH: I would certainly accept a rate of 2 or 3
11 percent. But that is not really why I am here because I don't
12 think it is realistic.

13 MR. LOVE: How would utilities look at loans from the
14 Permanent Fund with an interest rate that would be readjusted
15 every five years?

16 MR. SMITH: I don't think that would be really
17 unreasonable, although I think it would be somewhat unusual.

18 MR. LOVE: I know they are doing that with home
19 mortgages.

20 MR. SMITH: Yes, and we have considered it on that
21 basis. Again, our primary difficulty is the term rather than
22 the interest. Because the interest rate is an element that is
23 easy to identify and it is an ongoing expense and one that can be
24 readily incorporated in the rate base. I don't think that is
25 entirely unreasonable, if it can be set up on a workable basis.

1 MR. LOVE: The problem of financing utilities, is it a
2 rural problem, an urban problem, or a Statewide problem?

3 MR. SMITH: I think it is a national problem. I
4 belong to a national association of investor-owned water
5 utilities and that seems to be the trend of it regardless of
6 the size of the utility. American Water Company, General Water
7 Company, Central Alaska Utilities, Eagle River Utilities, they
8 all seem to have that common problem of lack of available
9 funding.

10 MR. LOVE: Are most of the investor utilities in
11 urban areas in Alaska?

12 MR. SMITH: In Alaska? I can't really speak for that
13 entirely. I presume largely that is true although there is
14 probably a large scattering of small utilities that are serving
15 suburban or rural areas simply because there is nobody else
16 there to do it. I would say we are probably far and away the
17 largest investor-owned water utility in the State and probably
18 the third largest water utility as such that operate in a
19 suburban area.

20 MR. GALLACHER: What is your own capital need?

21 MR. SMITH: Roughly a million dollars a year. It goes
22 out very easily and very fast. The water comes free, we've been
23 accused of selling a commodity we get for nothing and we have
24 offered as a counter to that that anybody who wants to come to the
25 well with their own bucket, we'll supply them free water. Two

1 reservoirs that we are just completing now are roughly on the
2 order of 750,000 dollars. We are spending presently about
3 1-1/2 to 2 million dollars a year on capital improvements on our
4 own system. Those are funds that are derived from our cash flow,
5 but largely, probably two-thirds to three-fourths of those funds
6 are coming from developers as a cost of development of a
7 subdivision and that has certain benefits. They are providing
8 the financing in those particular areas, however, they are only
9 interested and capable of providing the facilities directly within
10 their subdivisions. It does not accomplish such things as
11 building reservoirs. It also puts quite a burden on the
12 developer. As you all know, the cost of lots in the Anchorage
13 area is at a ridiculous level at the present time. 20 to 23,000
14 dollars for a subdivision lot. Largely because of the cost of
15 development. We also have individual home owners or people
16 within a neighborhood that are existent but need the service but
17 flat can't afford it and we can't afford to finance it for them.
18 We have had to establish, since we are not in the lending
19 business, for those few cases that absolutely had to have it and
20 could not come up with the money, provided a 3-year financing
21 program at an extremely high rate of interest, about 14.5, 5
22 percent. Simply because we had to be in the position of enabling
23 them to get the service and there was no other way to do it. We
24 would rather not be in the financing business. The same,
25 conversely, if we have the long term financing available and it

1 can be established that an extension, for example into a new area
2 will accomplish a great deal of good and a return over a period
3 of time, I think it is a good investment. It would also then
4 enable you gentlemen to finance that improvement and let the
5 people take advantage of the long term financing as opposed to a
6 two and three year program as we have now. It is an extreme
7 hardship in many cases.

8 MR. WOHLFORTH: That was a very eloquent presentation,
9 sir, and we appreciate your coming forward.

10 MR. SMITH: We appreciate the opportunity to be heard.
11 I would like just to part on one final shot. The money is, again,
12 to be spent entirely within Alaskan industry and the service that
13 we provide is entirely to Alaska.

14 MR. CRAWFORD: What is the breakdown as far as water
15 utilities and electrical utilities as compared to REA?

16 MR. SMITH: I can't honestly say. I believe we only
17 have one REA in the group. All of the regulated utilities are
18 not members of the Association. We have opened the membership
19 and invited membership of all the regulated utilities. Of the
20 143 that are regulated, I believe 18 are actual operating
21 members. Many of them are extremely small. Some of them are
22 REA's and they haven't expressed any particular interest nor
23 have the municipals. I believe we have two municipals. It is
24 also a new organization. We are just putting it together.
25 Essentially, we started this thing with the idea of generating

1 support for this loan program. So, primarily, those utilities
2 that were interested in the loan program itself immediately
3 joined and have been active in it.

4 MR. CRAWFORD: This is primarily electricity.

5 MR. SMITH: We have extended membership to everybody
6 that is a regulated utility. Our membership even includes a
7 couple of TV operators.

8 DR. LOGSDON: Did I understand you to say there were
9 143 utilities?

10 MR. SMITH: By our count from the PUC list there are
11 143 regulated utilities.

12 DR. LOGSDON: Did I understand you to say 10 million
13 dollars?

14 MR. SMITH: Well, we picked a figure that we felt was
15 reasonable based on our queries of the various utilities and
16 what they felt their needs might be. We picked a figure of 10
17 million dollars. A level of 10 million dollars to be available
18 during any given year with no utility receiving more than a
19 million dollars at a throw.

20 MR. EDENSO: One question I have is, what is the
21 average or the normal turnover rate for long term debt in
22 Alaska utilities? In other words, how long is the average long
23 term debt kept on the books?

24 MR. SMITH: Do you mean the term of the various
25 programs? There are some that have been reported to us -- I

1 don't have a real reading on it. Just the few reports that we
2 have had. We did get a response from one utility that had a 30-
3 year loan. We, ourselves, happen to have an SBA loan, it was a
4 disaster loan, which was a 30-year loan. The balance of our
5 funding has been 5 to 7 years that we have been able to get on
6 the open market.

7 MR. EDENSO: I understand that. But on the average for
8 the utilities in Alaska, you don't have long term debt.

9 MR. SMITH: Except in extreme or unusual cases, long
10 term debt has not been available for the utilities.

11 MR. EDENSO: What I am getting at is, would 10 million
12 dollars be adequate if you have an average life of your long
13 term debt of 30 years?

14 MR. SMITH: Well, there are a number of factors that
15 are going to govern this. One is the rate of expansion of a
16 given utility for a particular area. In our specific case,
17 we're going 10 to 15 percent a year so our needs are greater. A
18 million dollars a year essentially would satisfy our need. So
19 trying to use that as a criteria, we're trying to make a
20 projection without having all the facts available and maybe 10
21 million dollars would be light. I don't know. I honestly don't
22 know. Chances are, if the fund was once established and put into
23 use, and the utilities aware of its use and methods of operation,
24 then 10 million wouldn't be sufficient. But we are trying to
25 start -- to put a parameter on the thing, we are trying to start

1 with a figure.

2 MR. EDENSO: Do you know what the total asset dollar
3 value is for the utilities in the State?

4 MR. SMITH: No, I honestly don't.

5 MR. EDENSO: In excess of 300 million dollars?

6 MR. SMITH: Yes, I would say that is very easily
7 true. In our case, we're roughly a 20 million dollar operation
8 and this is water only.

9 MR. EDENSO: Do you have a feeling that the demand for
10 expansion and demand for utilities in the State, has there been
11 any kind of information of that nature available to you?

12 MR. SMITH: No, there hasn't.

13 MR. EDENSO: 10 to 15 percent is your growth rate.

14 MR. SMITH: That has been our pattern of growth, that
15 is correct.

16 MR. LOVE: Could we receive some of that information
17 from the Public Utilities Commission?

18 MR. WOHLFORTH: That occurred to me that is where all
19 the figures are.

20 MR. SMITH: That is the one clearing house source of
21 information. Every utility is required to file an annual report
22 to the Commission. The Commission is aware, incidentally, our
23 our presentation and did support us in this presentation to the
24 Commerce Committee.

25 MR. WOHLFORTH: Thank you again, sir. Any more

1 questions?

2 MS. FLEISCHER: Are you talking about two different
3 kinds of financing programs, one for the utilities. But also
4 a separate financing for individuals who may need ---

5 MR. SMITH: No. I feel that, if such long term
6 financing was available to the utilities themselves, then they
7 would be able to provide that service to their customers. Thank
8 you very much.

9 MR. WOHLFORTH: Two gentlemen from the Home Federal
10 Savings & Loan have been sitting very patiently. The chairman
11 of the board and the president.

12 MR. BOWDEN: I am Dwight Bowden, chairman of the board
13 of the Home Federal Savings & Loan Association. I am also a
14 real estate broker and primarily interested in residential
15 housing.

16 Our interest here this morning as members of the
17 savings & loan community, having known about this for a very
18 short time, we have had a limited amount of time to discuss the
19 Permanent Fund with the other members of the savings and loan
20 community. However, we feel that our views will only differ by
21 degree with the other savings and loans. ;

22 Paul Kapansky is here as president of Home Federal
23 Savings & Loan.

24 We feel one of the excellent uses of
25 the Permanent Fund would be as a secondary market for

1 residential home loans or possibly as multi family housing
2 loans in the State of Alaska.

3 Alaska has always been a capital-short state and the
4 banks and the savings and loans have traditionally only been
5 able to make loans if they were able to sell them to some Outside
6 investors. Outside investors always look at Alaska and
7 considered Alaska as a capital-short state and automatically our
8 rates go up a point or two over if they were buying a loan in
9 their own neighborhood. We feel that the Permanent Fund could
10 well be used as a competitive market and possibly at rates that
11 would allow Alaskans to own their own home, or keep housing costs
12 down.

13 Of course, another big factor in the cost of housing in
14 Alaska is all the fees that are charged to the developer at the
15 time that he takes out a loan because of high risk and the fact
16 that Alaska is a capital-short state. In order to compensate for
17 that risk, the Outside investor wants very substantial fees.
18 But we do feel this is an area the Permanent Fund could get into
19 at fairly low risk and provide much needed housing for Alaskans
20 who can't afford it.

21 MR. KAPANSKY: I think that we also feel that not only
22 to compete with some of the existing secondary markets but
23 perhaps create a secondary market where there is none, primarily
24 residential lending. There does not seem to be any problem in
25 finding a secondary market for some of our housing with a loan up

1 to 68,750. Anything above that with the exception of the state
2 gets more difficult. As you are probably aware, many of our
3 homes up here sell for considerably more than 68,750. And this
4 have a tendency to put a crimp on some of the sales of these
5 homes. Our primary secondary markets and I speak specifically
6 for Home Federal on that and not necessarily for the S & L
7 industry up here, the Federal Home Loan Mortgage Company.
8 Although they do purchase mortgages, if they follow within
9 certain criteria up to 68,750, they also have criteria for
10 certain areas which they will not purchase the mortgages in. It
11 doesn't necessarily mean that these areas are a more risky area,
12 it's just that they have come up with certain criteria that says
13 we will not purchase these. They do not live in the area and
14 are not all that familiar with it. I don't think the loans are
15 any riskier, and perhaps the Permanent Fund could be used to
16 supplement that also.

17 When we get involved in commercial projects, it has
18 been my experience, as I think Mr. Bowden has indicated, it is
19 an extremely capital-short state. The S & L's, the financial
20 institutions Outside realize this. When you attempt to put
21 together a project or a package, and although it may be a very
22 strong package, when you go to peddle it down there and deal
23 with them, they realize you don't have too many alternatives and
24 perhaps in order to put the package together you have to pay
25 their points and you perhaps have to pay a higher rate as opposed

1 to if we had something within the State of Alaska which perhaps
2 we would not have to charge the buyer or the builder as much.

3 MR. MOTLEY: Do you sell any of your loans to the
4 Alaska Housing Finance Corporation?

5 MR. KAPANSKY: Yes, we do.

6 MR. MOTLEY: Is their rate more competitive than the
7 Freddie Mack?

8 MR. KAPANSKY: I think their rate is -- they are
9 normally lower because it is for a qualified buyer. I think it
10 allows people who would not ordinarily be able to purchase a
11 house to purchase one.

12 MR. MOTLEY: Are their geographical restrictions
13 a lot more liberal? You talked about restraints that Freddie
14 Mack had and you meant geographical?

15 MR. KAPANSKY: That is right.

16 MR. MOTLEY: Those don't appear in the Alaska Housing
17 Finance Corporation, is that correct? In other words, there are
18 no geographical restrictions.

19 MR. KAPANSKY: I don't believe there are.

20 MR. MOTLEY: So that settles that aspect of what you
21 are talking about.

22 MR. KAPANSKY: Not necessarily. Alaska Housing
23 Finance, to my understanding, is set up on a per family per
24 income basis. In other words, if you make over "X" dollar amount
25 and only have two children.

1 MR. MOTLEY: We are talking about geographical now.
2 Not income limitations. I would assume that you don't sell more
3 to them because there isn't that much Alaska Housing Finance
4 Corporation money available. Is that a fair statement or not?

5 MR. KAPANSKY: The reason we don't sell more to them
6 is you once again get into the income limitations.

7 MR. MOTLEY: Income limitation is the problem.

8 MR. KAPANSKY: Yes.

9 MR. MOTLEY: The reason I bring it out is because I
10 think what you are saying is a very valid point in regard to the
11 difficulty of finding a secondary market. Alaska Housing Finance
12 Corporation has attempted to fill that to a certain extent, but
13 there is such a big market. I think it might be a useful thing
14 to explore. The vehicle is there if it had more dough, would
15 you agree to that?

16 MR. LOVE: I believe you were talking about redlining
17 when you were talking about certain areas. I mean there are
18 certain areas of the state ---

19 MR. KAPANSKY: Certain areas of the state secondary
20 markets do not care to invest in.

21 MS. FLEISCHER: Such as?

22 MR. KAPANSKY: I couldn't tell you specifically off the
23 top of my head.

24 MR. LOVE: Are there any areas in Anchorage that are
25 redlined?

1 MR. KAPANSKY: Probably areas in Mountain View, and
2 they call that a transitional area, going from single family
3 to multi family.

4 MR. LOVE: We are not just talking about Dillingham
5 and Barrow?

6 MR. KAPANSKY: No, we're talking about here in
7 Anchorage.

8 MR. BOWDEN: For instance, they won't normally purchase
9 a loan on a single family home zoned for a higher use. Anything
10 that is in a transition area. Possibly an older residential
11 area that is in transition to a commercial use.

12 MS. FLEISCHER: Who makes the decision as to whether
13 it is in transition?

14 MR. KAPANSKY: The secondary -- they have representatives
15 who come up here on occasion and they also have their own
16 appraiser who checks out the areas also.

17 MR. LOVE: You are suggesting we start government
18 loan programs for homes over the 70,000 dollar bracket to 80,000,
19 90,000. It seems odd to me that the government would want to
20 provide government loan programs for people who can afford to
21 buy an 80,000 dollar home.

22 MR. WOHLFORTH: We are talking about the secondary
23 market.

24 MR. KAPANSKY: The secondary market. Because that is
25 extremely limited. As you are aware, this is a capital-short

1 state so you can only make so many home loan mortgages.

2 MR. LOVE: My question is whether or not that should be
3 a priority ---

4 MR. KAPANSKY: I think essentially what you are saying
5 is because a person can afford a 70,000 or 80,000 dollar house
6 and many banks up here cannot afford to portfolio those, so
7 therefore that person should not be afforded the opportunity to
8 purchase one of those homes.

9 MR. LOVE: It seems odd to me, a government effort at
10 a social loan program ---

11 MR. KAPANSKY: You are saying he should purchase it but
12 where is he going to get the financing.

13 MR. LOVE: That's his problem.

14 MR. BOWDEN: He's saying there aren't funds available
15 and you're saying that's tough.

16 MR. MOTLEY: I think you have missed the whole point of
17 the secondary mortgage.

18 MR. LOVE: I don't think I did. I think I understood
19 exactly what he is saying. I have a couple of other questions
20 here.

21 MR. WOHLFORTH: Are they questions?

22 MR. LOVE: Yes, they are questions. Do you think we
23 look more towards being involved in the house market whether
24 it is multi or single family homes because of the increasing
25 cost of the single family home. How realistic do you think it

1 is over the long run to really think in terms of providing
2 single family homes?

3 MR. BOWDEN: I would say multi family housing is going
4 to be priced in the range that more people can afford than a
5 single family home on its own lot because of the high cost of
6 land and the high cost of developing that land. I would say any
7 developer or builder in the Anchorage area would be quite happy
8 if he could develop and build a home to sell for 60,000 dollars
9 or less. But it is a virtual impossibility because the economics
10 just aren't there.

11 MR. KAFANSKY: We haven't gotten that involved.

12 MR. BOWDEN: We're very small.

13 MR. LOVE: Rehabilitation loans for houses. Is that
14 an area where the current money markets aren't serving those
15 needs?

16 MR. KAPANSKY: You're talking about home improvement
17 loans? I can't speak for all the S & L's but I know we are
18 quite active in it. And once again, something because of our
19 size, which we have to look at, we can only tie so much in
20 portfolio because in our business -- once again, because we are
21 young and haven't established a good servicing market, what I
22 mean by that is selling houses on the secondary market, most of
23 the mortgages which we look at as a matter of survival have to
24 be salable markets and that is dictated by the secondary market.

25 MR. LOVE: There is going to be, I think, a big move

1 to have the Permanent Fund get involved in housing. A number of
2 the legislators made that part of their campaign. Housing is a
3 real tough item here and I think it important that we get
4 comments from the banks and savings and loan industry. In just
5 exactly what areas are needs in terms of financing. The
6 secondary market is not buying these second deeds or not buying
7 home improvement loans. I would be interested in the future in
8 hearing more.

9 What would you think if the Permanent Fund Committee
10 or whatever said, we won't put dough into the savings and loans
11 that utilize the proxies? Would that be objectionable to your
12 institution?

13 MR. BOWDEN: What would be the objective of such a
14 regulation?

15 MR. LOVE: Well, just to give the people that put the
16 money in the bank a more democratic control over the system, like
17 the system was supposed to be when it was originally set up. In
18 most banks there is not very much respect for control by
19 depositors ---

20 MR. KAPANSKY: Once again, I think you're dealing with
21 the nature of the animal, if they chose to have a voice which I
22 am not assuming they want. And then from a practical standpoint,
23 as you are aware now, perhaps a municipality, on occasion they
24 put funds up for bid. One of the restrictions is that we cannot
25 collateralize deposits. So, therefore, we, in most instances,

1 can only bid on 100,000 dollars in increments. So if you are
2 talking about putting funds into permanent funds which come from
3 one source. But if you chose not to have it collateralized, yes,
4 it might be helpful.

5 MR. LOVE: I'm talking about the secondary money market.

6 MR. KAPANSKY: What you are saying is that because we
7 are controlled by proxy, therefore, you shouldn't purchase our ---
8 We contribute to the economy and we put 15 million in loans into
9 the economy.

10 MR. LOVE: What do you think of that idea?

11 MR. KAPANSKY: To me it doesn't make sense.

12 MR. GALLAGHER: As you are aware, the Department of
13 Revenue put out of the pension fund large quantities of money
14 into housing. Is that program a successful program?

15 MR. KAPANSKY: I can't speak for the whole industry.
16 But at Home Federal we have utilized every nickel that we have
17 been able to get our hands on.

18 MR. GALLAGHER: Has it satisfied that market, or is
19 that market quite a bit bigger than ---

20 MR. KAPANSKY: It's quite a lot bigger than you have
21 funds to utilize. As a matter of volume, I can't put it into --
22 whether it's 68.750 or whatever. The S & L industry approximately
23 made about 199 loans last year. So we do contribute quite a bit
24 to the economy. For instance teachers retirement, I think there
25 is more in need that you have funds.

1 MS. FLEISCHER: I just wondered what the income
2 limitation is. For Alaska housing the problem was, you said,
3 income limitation.

4 MR. KAPANSKY: I couldn't say specifically but I think
5 the formula they use is it varies on the size of your family. A
6 person may make 24,000 dollars a year and have no dependents and
7 are not qualified. But a person making 24,000 dollars a year
8 and having three dependents would qualify. So it goes in
9 various increments and stages.

10 MS. FLEISCHER: So, basically, it is for low income
11 people.

12 MR. KAPANSKY: Essentially.

13 MS. FLEISCHER: My question was, knowing the housing
14 market here, are there houses available for people if they are
15 really low income?

16 MR. KAPANSKY: The average home up here is about
17 between 60 and 70,000 dollars. When you look at it in mortgage
18 payments of existing rates of 9 or 9-1/2, you're looking at a
19 monthly payment of 650 or 750 dollars. And generally the rule
20 of thumb that we use and the secondary market uses, because we
21 have to sell our loans through the secondary market, we're tied
22 into that. They look to an income ratio of about, their monthly
23 payment to their gross monthly income of about 25 percent. So
24 at a 650 dollar monthly payment, you're looking at an income of
25 30,000 dollars a year.

1 MS. FLEISCHER: But you're saying that if there were,
2 if the State would provide that secondary market, then possibly
3 the State could meet its own needs.

4 MR. BOWDEN: Set your own criteria.

5 MR. KAPANKY: Set your own criteria and I think you
6 would open up the housing market a little bit more to people
7 which now can't afford it.

8 MR. WOHLFORTH: Are there any other questions? If not,
9 we thank you very much, gentlemen.

10 MR. FLEETWOOD: I'm Al Fleetwood, and I am appearing
11 here today in my capacity of Secretary-Treasurer of the Alaska
12 Bankers Association. My presentation is in behalf of the
13 Alaska Bankers Association.

14 In particular, the Alaska Banks Association is pleased
15 to support the creation of a Permanent Fund, and congratulates
16 the Legislature on its foresight in giving the voters of Alaska
17 the opportunity to approve this concept.

18 You have invited us to submit suggestions concerning
19 the use and policies governing the Permanent Fund. We appreciate
20 this opportunity to participate and certainly pledge our fullest
21 support and cooperation and assistance in your efforts to
22 establish the policies for the best possible use of the fund.

23 The fund can be used as an economic stabilizer. It is
24 our position that it should be structured and maintained as a
25 Trust for the lasting benefit of the citizens of the State of

1 Alaska.

2 As such, all objectives, investment policies and
3 guidelines should be established within the context of the
4 "reasonable or prudent-man" investment principle.

5 So managed, we feel that the Permanent Fund can be a
6 tremendous asset for our State in terms of both a capital source
7 for future development and a cushion for a possible period of
8 inadequate State revenues. It should be treated as a trust
9 fund for the Alaskans of the future.

10 At this time, we are actually not prepared to make
11 definitive suggestions as to how to best achieve what we are
12 sure would be our mutual goals. We are hopeful that we may have
13 sufficient time to develop specific suggestions for your
14 consideration, believing that a little more time at this time
15 will be worthwhile for such a far-reaching function. It is hoped
16 that we can have meaningful recommendations in your hands in
17 about 45 days.

18 Again, I thank you for this opportunity and look
19 forward to our next meeting. That's about it.

20 MR. WOHLFORTH: Any questions to Mr. Fleetwood?

21 MR. KERTTULA: That is a good presentation.

22 MR. FLEETWOOD: Well, we mean to establish an eager
23 foot in the door.

24 MR. LOVE: One suggestion, will the Association try and
25 come back with some specific suggestions for how to deal with

1 some of the problems which have been brought up, some of the ways
2 or protecting the interest of the State from political
3 manipulation and also bank participation. We're not going to be
4 stuck with bad loans. I would like it if I could just see some
5 specific proposals presented to us from the Association that we
6 can look at in terms of amounts of bank participation.

7 MR. FLEETWOOD: Let me give you a little bit of
8 background of our meeting. I wish the Permanent Fund could be
9 invested in something in the Post Office to make its system
10 more efficient, but we got out our mailing list and most of them
11 had just one day in order to come to the meeting and all but one
12 bank in the whole area was represented at that meeting. It's
13 difficult to get all the banks together, but they are committed
14 to come up with some composite position. And I think you're
15 going to get this. I am interested to see what will come out of
16 it also but I think it will be very, very meaningful to your
17 Committee.

18 MR. KERTTULA: You think you can stretch across the
19 State banking and mutuals and the whole works.

20 MR. FLEETWOOD: Yes. They are all members with the
21 exception of the S & L's. But if we can't come up with a
22 composite position on all points, we just don't address those
23 points.

24 MR. KERTTULA: The medical fraternity did that and
25 their composite position put the public right straight in the

1 middle. I hope yours doesn't.

2 MR. FLEETWOOD: I hope it doesn't too.

3 MS. FLEISCHER: I just wanted to ask, when you're
4 saying a composite position, on the goals of the Fund as well
5 as well as the structure?

6 MR. FLEETWOOD: Yes.

7 MR. KERTTULA: The only thing you could ever get
8 together on before, Al, was raising the interest rates.

9 MR. WOHLFORTH: Any questions? If not, we thank you
10 very much.

11 (RECESS AT 12:00 NOON AND RECONVENED AT 2:00 O'CLOCK)

12
13 MR. WOHLFORTH: The afternoon session of the
14 Investment Advisory Committee considering the Permanent Fund.
15 We do have scheduled a report from Mr. Ken Butler of White Weld
16 on leverage financing, however, I was told that he is not here,
17 is that correct?

18 MR. FUHRMANN: Yes.

19 MR. WOHLFORTH: We are fortunate to have two other
20 representatives of that firm and, if they will introduce
21 themselves to the audience, they can proceed with their comments.

22 MR. FUHRMANN: I am Charles Fuhrmann and with me is
23 Ted Swick. We are from our New York office.

24 We were asked to comment in an introductory fashion
25 today on the use of leverage in the Permanent Fund, or the

1 possibilities of such use. It is our feeling that it is
2 premature for a detailed discussion of leverage because the
3 goals and objectives of the fund, which are an integral part to
4 any decisions about the use of leverage and its appropriateness
5 have not been established. Nor has there been a decision
6 taken as to whether or not leverage is appropriate for the Fund.
7 We agree that it is appropriate for Committee members to be
8 aware of the possibilities of leverage so that they can focus on
9 those decisions.

10 The Fund itself is going to have a pool of funds and a
11 future cash flow. The cash flow being by statute at least 25
12 percent of various revenues which can be projected by analysts
13 government officials and the financial community. And leverage
14 should be a means magnifying the influence and maximizing the
15 economic impact of the Fund. And there are various ways of
16 doing that. One is by direct borrowing of the Fund, either tax
17 exempt borrowings, if the funds to be borrowed are going to be
18 used in certain fashions. That possibility exists and Ted will
19 discuss that in greater detail in a moment. Or straight debt
20 issues in either the public or private capital markets where the
21 Fund was the borrower.

22 Among the various development banks and other funds
23 in the world, many have used borrowings on their own assets
24 either from their governments or from the public or private
25 market. Some of the other funds are actually the borrowing

1 entities for their public agencies and for other purposes, and
2 so there are all kinds of possibilities with respect to
3 borrowing. You can borrow long, you can borrow longer, you can
4 borrow longest. And, as I say, they are either the public or
5 private market and you can be issuing either tax exempt or
6 straight securities.

7 Another means of leverage and one that has been
8 discussed briefly here this morning is the use of guarantees,
9 which allow you to have a multiple effect in the use of your
10 assets rather than being limited to the assets themselves, you
11 could extend guarantees of other people's securities to an
12 extent much greater than the assets you have. And the value of
13 the guarantee would be based on the amount of leverage you
14 created and the form of the collateral behind the guarantee.
15 Whether you have created a pool of cash or a pool of investments
16 against which the guarantees are issued, or whether you were
17 guaranteeing strictly against the future cash flows anticipated
18 by the Fund. Some people have used guarantee limits of 10
19 times assets, 5 times assets, 20 times assets. And the value of
20 that guarantee is dependent upon the amount of assets or earning
21 power or future cash flow behind the entity issuing the guarantee.
22 These guarantees could be extended to public -- other public
23 financings, from Alaska authorities, or to private credits.

24 In addition, there are several forms of Federal
25 borrowing entities or programs that provide guarantees which

1 depend upon and given to people on the basis of the equity behind
2 the issue. I refer, for example, to Title 11 financing, which
3 is available at the Federal level for the building of a merchant
4 marine operation, ships, or vessels or any kind. And the U. S.
5 Government extends guarantees up to 87-1/2 percent, vessels
6 built using the Title 11 program. And they expect those vessels
7 to have a 12-1/2 percent equity interest in them. And their
8 willingness to give those guarantees is often dependent upon the
9 strength of that equity. And there are also possibilities there
10 for guaranteeing the equity and not just the debt of other
11 entities in order to get them to qualify for programs that
12 already exist on the Federal level. Sometimes guarantees can
13 take the form of guarantee of performance beyond the principal
14 and interest payments on debt then. They can also be related
15 to equity performance.

16 A third means of leveraging the Fund or at least
17 maximizing the economic impact, is the form of the participation
18 or financial participation you take in a project's financial
19 structure. As opposed to being the lender on a senior basis
20 to a project, any consideration on the part of the Fund to take
21 subordinate positions, either equity or subordinated debt
22 securities. Encourage and facilitate the participation of
23 private capital, because they come from behind that capital and
24 create a sense of security and minimize the risk to that capital.
25 And, in this way, you have the means of expanding the size of the

1 projects you can participate in without having to be the total
2 lender.

3 Discussed this morning was participation --
4 participating only with private capital and that may be an
5 attractive alternative but oftentimes you will find with some
6 of the projects you may wish to consider, that private capital
7 will not be available unless somebody is going to step in with
8 subordinated capital to give some security to it.

9 Again, in the area of participation loans, by being
10 a central force of a principal lender to a transaction, you can
11 often encourage money from the banks and other lending
12 institutions, many of which deal in longer term financing than
13 banks do. So your means of creating leverage are borrowing
14 yourselves to create a larger pool of funds readily available to
15 you through the future cash flow generated by the resource
16 revenues. Guaranteeing loans or equity. Providing subordinate
17 capital, either debt or equity to transactions. Or being only
18 willing to participate in loans which would encourage external
19 capital to also be participating with you. Those are the four
20 principal ones.

21 An unusual element here is the ability to use tax
22 exempt market to borrow some of the funds, should you wish to do
23 so, and I think that Ted is better informed in that area than
24 I am and can better deal with it.

25 MR. SWICK: I think we ought to take a few minutes to

1 talk about tax exemption. In discussions, sometimes it isn't
2 clear exactly what it means. It certainly means something in
3 the capital market but what it means in terms of government and
4 that side of the thing. As far as the ability of Alaska
5 through its Permanent Fund to participate in tax exempt
6 activities is inherent in its very existence as a local
7 government. The assets of the Fund itself and the source from
8 which they come has no bearing at all on whether or not your
9 activities can be tax exempt. The only restriction that I see,
10 and our experience shows and the law says, based on Federal
11 statutes, that if you were using the proceeds of a bond issue
12 issued by the Fund or an appropriate underlying entity that
13 might be created, that those bond proceeds from that specific
14 tax exempt issue could not be used for the benefit of a private
15 person. I think is the language they use, which would include
16 either individuals or corporations.

17 Those funds that come directly from the principal
18 source of your money in the Fund are not a deterrent to being --
19 having access to the tax exempt field at all. There is no
20 restriction on that whatsoever.

21 The various financing alternatives that relate to
22 leverage have been used and are available in the tax exempt
23 market. You wouldn't be breaking any new ground. Demonstrations
24 and exhibits of these activities can be easily brought to you.
25 The general existence of the people who have used them are

1 already in your files in regard to some of the funds that exist
2 in the Lower 48 that you are already familiar with and have
3 background material on. The material you have, I don't believe
4 up to this time shows you the details and the mechanics of
5 exactly the way it works. It is certainly implied in the
6 summary of those entities.

7 I don't know whether there has been any decision on
8 this tax exempt subject. Perhaps I could clear it up a little
9 bit. The financing possibilities and the use of the Fund,
10 whether to commit principal in some way or commit earnings only.
11 As Charles has already said there are things that can be
12 examined at that point in your life when you decide really what
13 do you want to do and then the financing mechanisms are either
14 copied, if you will, or developed for your needs. Or, in
15 certain circumstances it is not beyond possibility that new
16 configurations can be created with some work and some thought.
17 And, hopefully, at that stage is where we would make a more
18 specific recommendation. It is our judgment that the
19 possibilities of extent to which the assets of the Fund can be
20 expanded, if you will, into a fairly sizable activity. Your
21 alternatives and your choices are very broad. And I think the
22 economic impact can be very pleasing to what you are trying to
23 accomplish.

24 Charles and I would be glad to elaborate, if you have
25 any questions. We believe that it is too early to get into these

1 things, you know, who pays what, and how does this dollar get
2 to there, and all that until we collectively have a feeling of
3 what about this or what about that, and which way should we go.

4 MR. FUHRMANN: I might add that I have suitcase that
5 is lost between here and New York and it is probably sitting in
6 Seattle with Ken Butler in a fogged-in airport. In that
7 suitcase is a study of how some of these other funds have used
8 leverage. And the requirements of the lending agencies in terms
9 of covenants and extent of leverage in order to maintain AAA
10 credit rating for either the guarantee or the borrowing. That
11 will ultimately get here. If not in the next 24 hours, I will
12 see that the bag gets delivered to somebody on the Committee
13 before it gets returned to me in New York. So you can look at
14 that. I think that will be helpful to you.

15 Also, off the subject for a second, in the same bag is
16 a bibliography that was requested at the last meeting on what
17 people might be reading about development funds and various
18 programs around the world and how people have used them and it
19 lists books on the subject and articles on the subject. And to
20 the extent that those are not available to you, we will be
21 happy to get copies of anything on that bibliography for you.
22 In addition, there are two additional studies to go with our
23 original study on international and domestic development funds,
24 to include the industrial estates in Newfoundland and Quebec
25 development banks. Those will be available to you.

1 MR. SWICK: We have here -- just a 2-page introduction
2 to the subject. I might even describe it as superficial
3 perhaps. I will leave copies here with you.

4 MR. GALLAGHER: Could you elaborate on whether the
5 limits -- when you talk about public purpose in tax exempt
6 financing, just what are the limits of public purpose? It seems
7 to be the industrial development authorities are just about the
8 limit of where a public purpose might be and sometimes they
9 reach over what public purpose might be. Could you elaborate on
10 just what the current thinking is on limits of what public
11 purpose is in the United States?

12 MR. SWICK: Well, sir, as you implied and Eric is
13 probably closer to some of this. But the definition, I guess
14 has been stretched in some people's minds beyond reason,
15 particularly when you talk about industrial aid and lending of
16 credit to private persons. There is still a very broad body of
17 opinion and the United States Congress may act to restrict it
18 even further. They may adjust it so that it presumably has some
19 impact on smaller businesses or smaller activities where the
20 restrictions are now directed pretty much. As far as pollution
21 control is concerned, it created a volume in the tax exempt
22 market which has been dealt with, I think, well, the market has
23 performed well. There is some fear in the minds of the Federal
24 Congress that it is overburdening the market but I'm not sure
25 that can be really measured accurately.

1 I think every state, in effect, rolled over and have
2 industrial aid and industrial development and economic
3 development, with the exception of the State of Washington. I
4 don't have an answer to your question other than as I remarked
5 earlier, the place they go and the place they come down in local
6 government for financing economic development is when you use
7 bond proceeds. The clearest demonstration of the other technique
8 is what has been done in Pennsylvania where they've used other
9 assets for industrial loans. One recent development which is
10 maybe only two years old shows that on the other hand the IRS
11 will take a view of what a public purpose is when they declared
12 the handling of garbage or refuse as now a public purpose.
13 Subparagraph 3 in the 1968 Act relates to industrial development.
14 I would think though that the attitude generally in the Federal
15 Congress would be that the public purpose is stretched about as
16 far as it should be and it should be brought back a little to the
17 more traditional activities of government.

18 I think it is possible for this Fund and the source
19 of its assets, as I have already said, to be not restricted in
20 the activities you can engage in with that money. If they do
21 go into the borrowing market on an entity of their own and
22 expand their capital base in that manner, the Fund does, I think
23 it is very easily done with legal documents to have that money
24 segregated and just trace it through so it doesn't end up in
25 an industrial private person's hands.

1 MR. FUHRMANN: It needn't be fundable in the sense it
2 contaminates the whole fund.

3 MR. LOVE: Would you say that housing and public
4 utilities, even investor-owned utilities, are those the more
5 traditional areas?

6 MR. SWICK: Investor-owned utilities, the answer is no.
7 They have entered into the tax exempt field as I am sure you
8 are well aware in the area of pollution control in very
9 significant amounts. It has been a much more reasonable source
10 of their raising capital for non-productive expenses that they
11 have to do to comply with our environmental protection laws.
12 Traditionally, really the services you come to expect from your
13 town, county, borough, or State, schools, roads, sewers, water.

14 MR. LOVE: Housing is.

15 MR. SWICK: Housing is.

16 MR. LOVE: Let me see if I understand this. You've
17 got a million dollars in principal and you either commit that
18 into safe securities and use the principal as your reserve fund
19 basically, or you use, say, the earnings off your million dollars
20 which might be, say, 60,000 dollars a year or something like
21 that as a committee of one. And after you've got this amount
22 that's committed, how much bonds can you sell and maintain a AAA
23 rating, how much reserve to get a AAA rating?

24 MR. SWICK: You go to the credit matter which is
25 important because it has a direct relationship on the cost of

1 money. Levels of credit by our traditional ratings, AAA is the
2 best credit and on down to AA, BAA and then it begins to drop
3 out of what is called investment quality. The cost of money
4 directly relates to those investments. If you want to have a
5 AAA bond issue, we would want to make something up, say a new
6 high school ---

7 MR. LOVE: Let's just say housing.

8 MR. SWICK: Then to insure yourself of a AAA rating on
9 the securities that were sold in the tax market to build the
10 house units ---

11 MR. LOVE: Buy the mortgage.

12 MR. SWICK: You would probably have to take an equal
13 amount of the Fund's assets.

14 MR. LOVE: 100 percent.

15 MR. SWICK: One to one. What the investor in the tax
16 exempt bond issue then sees is that he has a government security.
17 And the market for that bond is probably going to be maybe 5
18 percent and pledged assets invested in U. S. government are
19 earning 7.

20 MR. GALLAGHER: You might enlighten further that it is
21 only because of the State's credit rating itself that the State
22 agencies don't have a higher rating. It is traditional in the
23 market that the agencies don't have a higher rating, I don't care
24 how strong you make the credit, it's not going to be higher than
25 the State itself.

1 MR. FURHMANN: This isn't completely true.

2 MR. GALLAGHER: It's substantially true.

3 MR. SWICK: A housing bond issue -- I'm making all this
4 up -- and pledged to it were assets of the Fund invested in a
5 like amount of U. S. government, you really don't get into that
6 problem of it being an agency of the State and having to have
7 the same rate. They'll go right to the ---

8 MR. WOHLFORTH: That would be of such a high quality
9 that it would be unique almost. I am wondering, would it have
10 to be quite such a tough pledge. This was suggested back in '69
11 by some of the investment bankers who came up and they said what
12 about a State public improvement corporation which would be a
13 bond issuing autonomous public authority. The pledge that they
14 envisioned was a pledge of income from the Fund up to 1.3, 1.4
15 times debt service annually. To the extent that interest was
16 met, those funds were then free for expenditure at the end of the
17 year. Since it was a test kind of thing, during the year the
18 pledge is effective in favor of bondholders' debt service. At
19 the end of the year, it fell over and became free and things
20 started up again. That was one of the thoughts they gave us.

21 MR. SWICK: You're right, I was starting at the top.

22 MR. FUHRMANN: Guaranteeing the AAA.

23 MR. SWICK: Bring it down. Any choice as to what you
24 would actually put toward that particular indebtedness. Whatever
25 you do will determine what it costs in the market.

1 MR. FUHRMANN: A lot of this, you should also be
2 aware that the rate agencies are prepared to negotiate and
3 discuss with you in advance of any issue what they really require.
4 You participate, you don't just send it in and pray. And you
5 also go with some pretty good advice. But there is nothing to
6 say that you have to be invested in Treasury. You could be
7 invested in fisheries, public utilities, vessels, timber lands,
8 food packaging and all the rest with various invested securities.
9 You have as your assets a series of investments, bonds and
10 certificates. And those may have just horrible credit, or they
11 may have very good credit, or a mixed bag of credit behind them.
12 That could be set aside too or the earning power and future
13 principal could be set aside but then the demands would obviously
14 be greater than they would be in terms -- if you wanted to
15 preserve the credit and they would be if your investment was
16 solely in U. S. government. But this is not to restrict what
17 you do with your Fund to maintain credit and value in the credit
18 that you put into the market.

19 MR. LOVE: I guess you could go down quite a bit
20 though from 100 percent. You could down to about 20 percent
21 reserve and, if so, what type of interest rate? Can you give me
22 some ballpark figures?

23 MR. FUHRMANN: The credit agency is concerned about
24 the last dollar as they are the first dollar. It would not be
25 correct to tell you that, if you only guaranteed 80 percent of

1 the issue ---

2 MR. LOVE: How about 20?

3 MR. FUHRMANN: You just wouldn't work that way. You
4 would have to guarantee the whole issue.

5 MR. GALLAGHER: He is asking the size of the reserve
6 fund necessary to get there.

7 MR. FUHRMANN: It depends on what you've got in the
8 fund. That is what we are trying to say. If it's all
9 governments there probably is a break, and it depends on how the
10 Permanent Fund is structured. The credit agency may be able to
11 look to the future cash flow of the fund as well as security
12 here.

13 MR. LOVE: It seems a couple of weeks ago somebody was
14 taking about 10 to 1 leverage in the Fund. Are you saying you're
15 not going to leverage 10 to 1 in the tax exempt market, that
16 you have to go to different markets?

17 MR. GALLAGHER: What he is saying that you go to 10 to
18 20 and you may not gain that much.

19 MR. FUHRMANN: You may not be AAA when you're finished,
20 but you can probably go that far as some people have indicated.
21 We haven't. Some funds have gone as high as 20 to 1 but most
22 of those have the taxing power behind them of the nation. The
23 Permanent Fund doesn't.

24 MR. LOVE: Say we were to get some estimates on, you
25 know, hypothetical situation, you might be able to get this type

1 of a rating for this type of -- let's say bonds for mortgage or
2 something like that. If you were leveraging say 6 to 1 or 5 to
3 1 or something like that --- To make the whole thing more
4 tangible, I would like to see -- this may not be appropriate
5 right now but it is just really too early to do this type of
6 thing, but ---

7 MR. SWICK: It could be done but I would warn you that
8 it would probably be such an academic discussion, how it would
9 ever relate to the market place would be anybody's guess. A
10 credit analysis on the municipal side, there are really only
11 two things that you get down to. What is the willingness of the
12 issuer to make the thing work piled on top of the need for it
13 in the first place as a governmental service. Not to get too
14 far afield, you are talking about housing on several occasions.
15 You may be familiar with Section 8 deal setup in the Housing Act
16 and what a basic disaster it has been. The problem simply is
17 that the lender of money doesn't find any comfort in any bonds
18 that are based on the Section 8 program. Housing units of that
19 part of the Act which have been created have been a failure.

20 MR. FUHRMANN: Jamie, if I were to tell you that the
21 interest rate you pay for a loan is based on the terms of the
22 loan, the structure of it, whether it is 1 year, 2 years, 10
23 years, 15 years, and the credit behind the loan, whether it's
24 AAA of AA or A, or whatever. And if I told you the credit rating
25 somewhat depended upon the extent of the leverage, you can go as

1 you want but at some point the market will tell you that they
2 won't accept you as a credit at all. But the Fund itself, to
3 simplify the whole thing and ignore tax exempt from it, the Fund
4 has a pool of funds, some of which may be invested as assets,
5 cash, it will be investments in debt and equity securities
6 perhaps, it has the potential to earn money on its investments.
7 And has a dedication by statute of future cash flows coming from
8 oil revenues. So the credit institution -- if the Fund itself
9 were to issue straight bonds, not tax exempt, and they are the
10 issuer and they are not creating any pool or anything else, they
11 are not setting it aside to be issued against anything, it is
12 not a collateralized bond of any kind, the credit agency and the
13 market place would be looking at what their perception of what
14 the oil revenues will be in the future, earning power of the
15 assets you have already invested in other things, how good an
16 asset those are, to determine what you are going to pay for that
17 and what maturity they are prepared to let you have. Now, if
18 you take away credit from me, if you stick over something in a
19 pool, if you just put the worst loans over there, I can tell you
20 you're going to have trouble getting a long maturity, you're
21 going to have trouble getting a low interest rate, you're going
22 to have trouble selling it at all.

23 MR. LOVE: I'm not talking about the worst loans.

24 MR. FUHRMANN: If you put the best ones over there,
25 you're going to have to get a longer maturity rate -- maturity,

1 you're going to get a lower interest rate. It will be a breeze
2 selling the loan. And you will be able to have greater
3 leverage on it. Because the earning power will be better and
4 it will be perceived better without damaging your credit standing.

5 MR. LOVE: I think I understand the process.

6 MR. WOHLFORTH: Other questions?

7 MR. WALDOCK: Jim, when these studies on the leverage
8 that White Weld comes up, would you see that we all get a copy
9 of that. I would appreciate that.

10 MR. WOHLFORTH: We've had some limited experience with
11 the leverage concept, although very limited experience, in terms
12 of loans from the General Fund to support a Capital Reserve
13 Fund. One new agency which is starting up, the Alaska Municipal
14 Bond Bank Authority. And we have seen some credit recognition
15 to it. Certainly not what we had hoped for but it never is what
16 we hope for. The Bond Bank Authority has an actual hard dollar
17 legislative appropriation. As a reserve fund it happens to be
18 put on a 10 to 1 basis. And I think it has achieved, in part at
19 least, a rating based on that. I am sure some of the Committee
20 will want to be thinking about the same kind of leveraging
21 principle in terms of municipal loans. Some way of translating
22 the State's credit, which I feel will improve dramatically
23 probably within the next year and certainly within the next two
24 years, ways of translating that credit to the local government
25 who will have continuing borrowing needs. We have a small

1 example of how that can be done. The Legislature has taken a
2 step in that direction and we are seeing some signs of success.
3 I am certain the local governments will feel that very keenly
4 if the State is able to borrow at a AA or AAA rating, and they
5 are barely able to achieve an investment grade rating and they
6 can see interest rates that they are paying substantially more
7 than the State itself. So it is something that has to be thought
8 about as this whole process develops, from my point of view.

9 MR. FUHRMANN: I might point out in that line an
10 experience we had. We represent Nationale Prinensierra (phonetic)
11 which is the Mexican development bank, for all intents and
12 purposes. No. 1, politics in Mexico is rather intense between
13 the people that run the Treasury Department and the people that
14 run Nationale Prinensierra, is just one example. But the
15 Nationale Prinensierra has essentially been used as a vehicle
16 for which everything goes to the market in Mexico, except the
17 Mexican government itself. All the agencies go through it and
18 everything else. And the Mexican government issues bonds.
19 Nothing in Mexico is really rated because they don't want to be
20 rated anything less than single A and, therefore, they have
21 chosen not to be rated at all and run the risk of being rated
22 less than that. But we were in a position to offer Nationale
23 Prinensierra a security that was going to sell better and be
24 perceived in the market places as better credit than the Federal
25 government's direct paper. And, in that case, the Federal

1 government was fearful that this would influence their sinking
2 fund retirement programs and their ability to issue direct paper
3 in the future and everything else and people would be insisting
4 that -- Nationale Prinensierra not only represented the agency
5 but also represented the government itself in the market place.
6 So they rewrote the charter of Nationale Prinensierra to remove
7 the advantage that Nationale Prinensierrra was going to be able
8 to have, that was going to help them in the market place. So,
9 if there is a sense of competition, you may find that happening
10 here too. There is certainly within this Fund the ability to
11 create a AAA security. So keep that in mind.

12 MR. WALDOCK: I wonder if you would address the
13 possibility of using an insurance program on some of our loans,
14 i.e., the Alaska State Housing Development people just put out
15 some bonds here within the last month, and it is a fully insured
16 program. Would there be any possibility of using this type of
17 an insurance on various types of loans that we might be able to
18 utilize through the Permanent Fund?

19 MR. SWICK: Well, when you're talking loan insurance
20 you are talking about bond issues of local communities?

21 MR. WALDOCK: Yes.

22 MR. SWICK: Yes, I think very quickly to answer you the
23 technique that is used in the Housing Finance Agency, State Bond
24 Bank that Eric referred to, are techniques that can be applied
25 right to this corporation money.

1 MR. FUHRMANN: I am not sure there is much difference
2 between a guarantee and an insurance program. You understand
3 with a guarantee program the Fund could look to -- could get a
4 fee for providing the guarantee. And to the extent that they
5 are putting assets aside to collateralize the guarantee, those
6 assets will not be idle, will be invested. And the combination
7 of the guarantee fee and the earnings on the put-aside assets
8 may be considered an attractive investment alternative for you.

9 MR. WOHLFORTH: The insurance program Dennis referred
10 to -- the current program of this corporation is to purchase
11 conventional mortgages which are either 80 percent loan to value
12 or insured through PMI, Private Mortgage Insurance. A 2 percent
13 fund has been created, essentially take care of the uninsured
14 portion, or the perceived portion which needs coverage. It is,
15 again, just another financial device that may well be proven.

16 MR. GALLAGHER: It also has an additional reserve
17 fund that insures the whole bond issue and not the credits
18 themselves.

19 MR. WOHLFORTH: Yes.

20 MR. SWICK: I think the point is the assets of the Fund
21 would be positioned in the same way that the corporations have
22 done.

23 MR. WALDOCK: Does any development corporation use
24 this principle?

25 MR. SWICK: I can't come up with one. South Carolina

1 was getting at it and the legislation failed on the floor and it
2 never got to a test. The private mortgages were interviewed and
3 had meetings and had associations meet to get themselves into
4 this thing, but it never got together.

5 DR. LOGSDON: What was that, we couldn't hear that
6 down here.

7 MR. FUHRMANN: Were there any other funds using the
8 insurance concept.

9 MR. LOVE: Are you prepared now to give us more
10 tangible ideas if we went into the tax exempt market the
11 traditional type of loans we might make other than housing?

12 MR. FUHRMANN: We indicated, Jamie, we have talked
13 about things like power transmission and distribution, housing,
14 schools, roads and highways, recreational facilities, airports,
15 ports, hospitals, water and sewer systems, transportation
16 facilities and so forth.

17 MR. LOVE: These development corporations they are
18 basically in developing structures and facilities, they are not
19 like research development or something like that?

20 MR. WOHLFORTH: He may be asking about the IBB test,
21 what is the test for an industrial development bond with security
22 interest ---

23 MR. FUHRMANN: It's the ratio in dollar amounts and
24 they you start qualifying for all kinds of things.

25 MR. LOVE: How about if it was like for a public

1 resource development company or something like that, a public
2 insurance company. Say the State went into the medical
3 malpractice field or the workmen's comp. field or auto insurance,
4 the State got involved in resource development, would that
5 become eligible for tax exempt borrowing? If it was actually
6 publicly owned.

7 MR. SWICK: I don't know why not.

8 MR. LOVE: It is not the nature of the activity, it is
9 who the ultimate borrower is, right? But home owners would
10 qualify ---

11 MR. FUHRMANN: Someone is going to track the dollars
12 that you have raised to make sure that you have not abused the
13 privilege of tax exempt financing.

14 MR. LOVE: But a homeowner would probably qualify.
15 But a guy with a 100 or 200 apartment complex, he probably
16 wouldn't qualify.

17 MR. WOHLFORTH: It is all very meticulously set out
18 Section 103 of the Code.

19 MR. SWICK: You understand that those restrictions --
20 those restrictions only exist to the extent that you use the
21 proceeds of the tax exempt bond issue. Don't confuse that with
22 the fund.

23 MR. CRAWFORD: What is the point spread between tax
24 exempt and non-tax exempt bonds?

25 MR. SWICK: It would be easier for me to say it

1 fluctuates. I guess traditionally we're talking about 1-3/4's,
2 2 percent over a period of years. You get disruptions in the
3 market based on technical things that are of a temporary nature.
4 The tax exempt market is the full product of the money market
5 and the whole interest rate structure. The demands for capital
6 on the public and private side change that. It's substantial.

7 MR. FUHRMANN: Changes with maturity.

8 MR. WOHLFORTH: Some commentators in talking about the
9 Permanent Fund and opposing it specifically, this was printed
10 in the Lt.-Governor's material submitted to the voters, said that
11 instead we should retire our general obligation debt and finance
12 all our improvements directly from recurring revenues in the
13 future. What would be your reaction to that?

14 MR. SWICK: My quick reaction is, why do that, just
15 keep doing -- you've got your governmental function and your
16 regular sources of income for your governmental services. Those
17 activities continue and I'm sure you don't want to lose sight of
18 the fact that there is going to be additional income from the
19 General Fund, this 25 percent or whatever that is going into the
20 Permanent Fund, which would be used for these special things
21 that go beyond the everyday expectations of your General Fund
22 creditors.

23 I don't envision the existence of the Permanent Fund
24 making it unnecessary for the State of Alaska to go into the
25 General Obligation bond. The same idea that has been inherent

1 in all your discussions, there is no sense in paying cash for a
2 facility or an activity that is going to benefit Alaska now and
3 down the road. That is the whole theory behind municipal finance,
4 to build a facility that has a 25, 30 or 40 year life, you, in
5 effect, have the fellow who is going to use it 30 years from now
6 also paying.

7 MR. LOVE: I think some of that was coming from fiscal
8 conservatives who want to see the State budget limited and
9 expenditures cut back.

10 MR. SWICK: There is nothing criminal about being in
11 debt, is there?

12 MR. FUHRMANN: You are doing a lending by taking this
13 money out of the General Fund and putting it into a Permanent
14 Fund.

15 MR. WOHLFORTH: Are there other questions? Before you
16 leave, there is a point that I think maybe we need to have some
17 expert advice on, later on, from perhaps the Attorney General's
18 office as we look at some of these questions. The phrase, income-
19 producing investments which is virtually the only qualification
20 in the amendment, what can they invest it in. As we consider
21 infrastructure investments, I'd say, if they are to be direct.
22 And we talk about schools, roads. Obviously some public
23 investments fall into the income producing category and others
24 do not. We talk about the concept of leveraging. It may be
25 that the Legislature considers that we will continue to borrow

1 for public improvements and have the Fund, indeed, provide a
2 substantial reserve against the amount that is borrowed.

3 I think we ought to consider early whether or not,
4 if we use a reserve fund concept for public borrowing, if we can
5 do other than a borrowing for so-called income producing
6 investments, which a school, obviously, doesn't qualify for.
7 Does the fact that ultimately that the monies may be paid back
8 to the reserve fund as a loan, does that qualify it as an income
9 producing investment. I am not clear at all in my own mind
10 whether that is the case.

11 MR. SWICK: You have already said that this idea of
12 providing what we loosely call front-end money, having it
13 returned and it will begin to return at a later date and still
14 qualify.

15 MR. FUHRMANN: We talked about that at lunchtime after
16 some of the comments that were made this morning by the bankers,
17 Chamber of Commerce people, I believe.

18 Ted asked me, he said, "What happens if the Fund wants
19 to get into research and development or front-end money to
20 something that would lead to an income producing situation" and
21 my answer was that if the Fund is, indeed, income producing that
22 another form of leverage that we really haven't talked about here,
23 it's not really leverage but it is in a sense of multiplying your
24 economic impact and your ability to pledge future funds that
25 will be coming into the Fund as opposed to current funds, was

1 that you can provide a long-term takeout to a bank so the bank
2 is actually putting up the start-out or front-end money and is
3 assured of a takeout from you when the project becomes
4 operational. So, in that sense, you have the ability right away
5 to encourage R & D and projects getting off the ground that are
6 not initially income producing. The other alternative, of
7 course, is having interest holidays until the project gets
8 going. But that may not be consistent with the income producing
9 concept.

10 One way you can work with banks is being there to
11 provide the long-term takeout and let banks do what banks do and
12 you do what most development funds do which is long term
13 financing and not short term financing or working capital.

14 Take that concept. No one has decided yet whether
15 you're going to be development oriented or capital preservation
16 oriented, or to what extent you want to be both or either.
17 Back to Lanie's goals and objectives.

18 MR. SWICK: You can do other things.

19 MR. FUHRMANN: You let us know what it is, and we'll
20 tell you what kind of leverage.

21 MR. WOHLFORTH: Next on the program is Bob Richards
22 from the Alaska Banking System

23 MR. RICHARDS: The comment on the discussion that we
24 were just having that the insurance that is available to
25 municipalities in Alaska, the Housing Finance Corporation, that

1 is limited to to 20 million dollars, may or may not have some
2 application to the Permanent Fund, but one thing that is
3 interesting, one of the positive elements of the Permanent Fund
4 is your judgment that there is an opportunity for a AAA rating.
5 That is pretty exciting and, of course, that would preclude any
6 real need for additional insurance.

7 The specific inquiry that you made at our last
8 session is being researched and that activity was preempted by
9 the request that we go in the direction that we are going into
10 today. At any rate, those questions will be answered and will
11 be submitted to you in writing.

12 Mr. Rhode and Mr. Edenso requested that I prepare
13 some observations on the interface of the Alaska Permanent Fund
14 with the Alaska Banking System. And I have done that, and
15 about all I have is just that, observation as distinguished from
16 comprehensive analysis of this matter.

17 The discussion today will really have two parts. The
18 first part will be kind of institutional in nature, that is,
19 comments on describing the Alaska Banking System. And the
20 other part, and the longer part, the more significant part, is
21 the relationship -- initial observations on the relationship
22 between the Permanent Fund and the Alaska Banking System. I have
23 some tables here that underlie some comments I will be making.
24 If you don't mind, I'll use the same format I used last time. I
25 will lay this out and then we can discuss it.

1 I think that relative to consumers in other states,
2 Alaskans enjoy access to a broad banking system. Now, we all
3 know that on any per capita contest, Alaska wins hands down. Just
4 by the mathematics of the issue. But, being that what it may, the
5 statistical fact remains that on a per capita basis there are
6 more separate banking institutions -- this is not number of
7 offices -- there are more separate banking institutions in
8 Alaska than in all of the other western states. By the way, I
9 don't know relative to the rest of the country. This is an
10 analysis I have performed -- I arbitrarily compared Alaska to
11 the other western states, which reduced the research effort.
12 Further, as exhibited in Exhibit B, for communities of 10,000
13 and over, people in Alaska have twice as many banks as the U. S.
14 average. Exhibit C is just coming at this item in a little
15 different way. That the Alaska commercial banks service some
16 pretty darn'd small entities, by any measure --- By the way,
17 as an aside, I have shown this Exhibit C to various of our
18 correspondent banks from Outside who are utterly aghast at the
19 proposition of building a bank to service such small population.
20 Finally, Exhibit D is a map, which I think indicates a fairly
21 broad geographical dispersion of Alaska's commercial banking
22 system. But, as you can see, quite clearly the Alaska banking
23 system falls right in line with the Alaska economy is related
24 directly to the present day economic complexion of the State.
25 And, finally, Exhibit E is just for your files, your background,

1 it is simply a list of all of the Alaska -- I indicated Alaska
2 financial institutions. Included are commercial banks, savings
3 banks and savings and loan associations. I will have to confess
4 to you a typographical error in here and that is Behrends, that
5 is Hoonah not Hootnah. And another quite surprising -- when you
6 put this together -- I was informed that the total was 110
7 commercial banking offices in the State, I found out it was a
8 somewhat surprising total, clearly in excess of what I had
9 intuitively imagined. So I think the information on these
10 exhibits -- although, again, like the statistics I presented to
11 you before, an intrinsic nature of the statistics that I will
12 always present to you, and I think an intrinsic nature of any
13 statistics anywhere at any time, they are imperfect. But perhaps
14 some sort of general conclusion that might be drawn here is that
15 the Alaska consumer, in terms of convenience, has access to --
16 is not hurting in terms of access to financial institutions.
17 I will put that, the Alaskan consumer functioning within the
18 cash economy.

19 Now, the information that I have presented to you is
20 primarily just for your background. The main element that we
21 wanted to get to today was some comments on the Alaska banking
22 system and the Permanent Fund. I think the most important
23 element of the Alaska banking system, in terms of the Permanent
24 Fund, is the role which Alaska banks -- and I am going to use the
25 term banks and you can broaden that term as appropriate. The

1 role which Alaska banks have played as a conduit for channeling
2 funds from large, long-term investors to Alaska's families and
3 businesses. I'll repeat that, I think the most important element
4 of the Alaska banking system in terms of the Permanent Fund is
5 the role which Alaska banks have played and are playing as
6 conduits for channeling funds from large, long term investors to
7 Alaska's families and businesses. I will give you some examples.
8 Over 80 percent of the money which finances the purchase of homes
9 in Alaska does not come from Alaska bank deposits. It comes
10 from large institutional purchasers of mortgages. And these
11 institutional investors are comprised, at the present time,
12 basically of one Federal agency, Fannie Mae and Freddie Mack. (2)
13 Outside savings institutions. (3) Union pension plans. The
14 local banks originate the mortgages, that is, they take the
15 application from the borrower and do all the paperwork, et cetera.
16 Then the banks sell the mortgages to these large investors and
17 service the mortgages for a fee. By that I mean collecting the
18 payments, making the tax and insurance payments. And, in fact,
19 the borrower deals solely with the bank and is not even aware
20 of the institutional investor who purchased his mortgage.

21 Now, another way in which the Alaska banks serve as the
22 conduits for the flow of funds into the Alaska economy is through
23 loan participation with Outside banks. This situation normally
24 arises when a customer comes into his bank in Alaska and requests
25 a loan that exceeds the lending authority of the particular

1 Alaska bank, or which has a characteristic such that, for some
2 reason or another, the Alaska bank wants the participation by a
3 large Outside bank. The Alaska bank then presents the loan to
4 an Outside bank with which it has a correspondent relationship
5 for consideration by the Outside bank to lend the amount of money
6 which exceeds the Alaska bank's authority. This is a very, very
7 common practice and it goes on every day. And Exhibit G ---
8 I'm sorry, I meant to give Exhibit F to you earlier. Exhibit
9 F is still descriptive institutional material and it simply --
10 note that I entitled this the partial list. This list simply
11 came forth by my checking the yellow pages of the telephone
12 book and my sitting back and using -- inquiring of other people,
13 and this is just to give you some sort of a representation of
14 the variety and magnitude of the financial institutions which are
15 channeling funds into the Alaska economy. Well, at any rate,
16 back to Exhibit G now. As I indicated to you, another way in
17 which Alaska banks channel funds, serve as a conduit for
18 channeling funds into the economy is through loan participation
19 with Outside banks. And Exhibit G is just -- and financial
20 institutions. And Exhibit G, again, is just a representative
21 list of financial institutions that I know of which have
22 purchased or which participate in Alaska loans.

23 Probably the most significant investor which injects
24 funds into the Alaska economy through the Alaska banks is the
25 State of Alaska. The State General Fund, the public employees

1 retirement fund and the teachers retirement fund currently hold
2 over 100 million dollars in loans and mortgages which were
3 purchased from Alaska banks. Additionally, at the Federal level,
4 the Small Business Administration has been a substantial
5 purchaser of Alaska loans.

6 So the relevancy of all of this, everything I have
7 talked about so far has led to one point and that is: The
8 Alaska banking system is structured and has operating procedures
9 established for serving as an effective conduit for the flow of
10 funds from large investing agencies to Alaska's families and
11 businesses. The Alaska banking system has a considerable amount
12 of experience in this procedure and the bankers of Alaska
13 perceive this, I think, as one of their important roles. The
14 investing agency benefits from this system by receiving the
15 knowledge, the skill, the manpower, indeed, the entire
16 mechanism of, I think, an extremely efficient group of
17 institutions set up to perform this very function. The large
18 institutional investor pays a fee for this service, which,
19 obviously, the institutional investors, to date, have felt was
20 more economical than setting up their own organizations to take
21 loan applications and process the paperwork and et cetera. Or
22 else they are making irrational decisions, one of the two.

23 The conclusion then, it seems to me, is that if a
24 portion of the Permanent Fund is allocated toward loans to
25 consumers, families and Alaska businesses and organizations -- and

1 I don't mean to imply that it should be -- I don't mean to imply
2 that it should be. I don't mean to imply that it shouldn't be.
3 But, if it is, if a portion of the Permanent Fund is allocated
4 toward loans to consumers, families or Alaska businesses and
5 organizations, it appears to me to make sense to do this through
6 an efficient system of financial institutions already set up to
7 perform this function. As I say, this is the conclusion that a
8 number of large institutional investors have already come to
9 themselves.

10 Further, however, I think that, if the managers of the
11 Permanent Fund, whoever they may be, should give consideration
12 toward allowing Alaska banks to participate in the large
13 economic development type loan. Now, some Alaska banks already
14 participate in major financing in the State which was actually
15 originated between the corporate headquarters of a national
16 firm and a large lender, a large bank in the Lower 48, who then
17 bring in, so to speak, the Alaska bank. The advantage of having
18 the participation of the Alaska bank is two-fold. One, often
19 the Alaska bank brings an understanding of the environment within
20 which the loan is being made. And, No. 2, the Alaska bank
21 provides a certain amount of local supervision of the loan by
22 maintaining surveillance over the activity which the loan is
23 financed.

24 Now, I think that most bankers in Alaska are quite
25 enthusiastic over the Permanent Fund. This was evidenced in the

1 statement which they made to you this morning. Because, frankly,
2 they are aware of the tremendous good that can be forthcoming
3 from this vehicle. And they certainly do not perceive it as a
4 threat, at least the bankers with whom I have discussed it. It
5 should be kept in mind that commercial banks are in business to
6 make short term commercial loans. Hence, their name. The
7 Permanent Fund, on the other hand, as indicated in my very first
8 working paper I presented to you, should have long range
9 orientation. It's very name implies this. And it is my opinion
10 that the Alaska voters had this in mind when they approved it.
11 So, operated as I think they ought to, the Permanent Fund and the
12 Alaska Banking System are certainly not in a competitive posture
13 and are certainly in a complimentary posture. As an added
14 service to the Permanent Fund, however, the Alaska Banking System
15 does offer an efficient conduit through which the Permanent Fund
16 could channel certain of its investments.

17 Those are my observations at this point on the
18 Permanent Fund and the Alaska Banking System. Again, to
19 summarize, I think they are complimentary systems.

20 MR. WOHLFORTH: I would be my suggestion we all take
21 a little break and a leg stretch before we launch into Mr.
22 Richards with questions. Let's try and hold it down to about
23 five minutes.

24 OFF THE RECORD

25 ON THE RECORD

1 MR. WOHLFORTH: We are back into session now, if you
2 will take your seats. Bob Richards has concluded his prepared
3 remarks and now it is questioning time. Who would like to be
4 first?

5 MR. GALLAGHER: I want to make one institutional
6 observations and then I want to talk about institutional
7 problems. I see a need for an institutional change. These
8 numbers on banks in the size of towns are good numbers. There
9 are even a number of smaller communities in Alaska. I see the
10 need for us to change the Banking Code to make mobile branches
11 or branches that don't have to be open five days a week and 8
12 hours a day, which is under the current law. It could make the
13 banking system even more responsive than it presently is for
14 rural Alaska.

15 MR. RICHARDS: I share the same feeling.

16 MR. GALLAGHER: The institutional problem that I
17 would like to get at and it really relates to rural Alaska is
18 that it is the tendency of the commercial banks in the State to
19 send out the relatively young and inexperienced managers out to
20 these small rural branches. Since they are young and
21 inexperienced, they seem to be unwilling to take risks or do any
22 new sort of program. I was wondering just what sort of
23 institutional change or what sort of emphasis could be
24 accomplished in order to make them more responsive to that
25 problem.

1 MR. RICHARDS: Two reactions. No. 1, I don't
2 necessarily concur with your thesis. No. 2, it would be helpful
3 to me to know what sort of tack we're going to take over the
4 questioning period. Are we just going to discuss the Alaska
5 Banking System? Are we going to discuss the Permanent Fund and
6 the structuring of the Permanent Fund? Are we going to be
7 discussing the relationship between the two?

8 MR. WOHLFORTH: Unfortunately, Mr. Richards, I have
9 been able to exercise very little control over the questioning
10 and the direct relevancy of the questions to the Permanent Fund.
11 So I would just have to say that it is going to have to be
12 fielder's choice to some extent. I guess the agenda item,
13 Alaska Banking System, has probably an indirect relationship
14 because any State loan program that is conceived to come from
15 the Permanent Fund must interface with the system as you have
16 already indicated. So I would hope that we would try and keep
17 our questions in that general context, but certainly I can't
18 insist that they be. Did you have any more response to
19 Commissioner Gallagher's comment or question?

20 MR. RICHARDS: Well, as I say, I don't think there is
21 sufficient -- I haven't seen a sufficient amount of data to
22 lead me to that conclusion. There are young inexperienced people
23 in all enterprises in Alaska. And, as you know, I was once an
24 employee of the National Bank of Alaska and I could perceive no
25 -- either policy or behavior on their part that substantiated the

1 thesis expressed.

2 MR. GALLAGHER: I happened to have to go to visit
3 several rural towns and I just happened to go visit the branch
4 manager in each town and quizzed them on what State loan program
5 monies were getting down to their level and were they aware of
6 certain State loan programs. And the answer was universally no,
7 they were not aware and, no, they had not participated.

8 MR. RICHARDS: Have you visited branch managers in
9 Anchorage?

10 MR. GALLAGHER: No, I haven't. But under the State
11 loan programs -- that work through the banking system, we are
12 getting substantial loans out of Anchorage banks and Fairbanks.
13 But it is in the rural areas that we are not getting that sort
14 of applications.

15 MR. RICHARDS: I respect your raising the thesis. It
16 is one that I do not necessarily concur with its validity.
17 No. 2, I don't feel qualified to respond to it.

18 MR. WOHLFORTH: Maybe we are talking in general the
19 whole communications problem which has been such a problem in
20 Alaska. We are challenged all the time to figure out ways of
21 getting the message across, even what is happening at these
22 meetings. And media devices, I don't think there is a state --
23 I don't think any of us have really fulfilled our responsibility
24 of how to get events that are happening across. We are doing a
25 lot now with task forces and groups and committees, but there are

1 a whole lot of people who aren't clued in yet. It's a universal
2 problem.

3 MS. FLEISCHER: It's just that I don't really know
4 anything about this. For one thing, this is kind of a small
5 point in a way but I note the census data here is 1970. I know
6 that the towns aren't this small.

7 MR. RICHARDS: I agree with you. I think you are
8 raising a trivial point.

9 MS. FLEISCHER: Well, what I was wondering was, are you
10 saying that towns as small as 150 people can have a bank now.
11 Did they have a bank when there were only 163 people there?

12 MR. RICHARDS: That is a very important question or
13 point that you raise, Lanie. And I don't think you can draw that
14 conclusion necessarily. It depends upon the role of that town
15 in the region in which it is located. It depends upon the
16 relationship of that town to the other towns served by the branch
17 system of which that branch is a part.

18 MS. FLEISCHER: In other words, the town itself may be
19 small but they may be serving ---

20 MR. RICHARDS: Right.

21 MS. FLEISCHER: What I was wondering, what is the need
22 for banks in smaller villages, unless there is a need, if people
23 need to be served.

24 MR. GALLAGHER: One of the institutional problems I
25 was referring to, FDIC requires them to be open five days a week

1 and I think six hours a day if they're open. And so there is an
2 institutional problem. If the State allows a State bank to do it,
3 then automatically the Federal banks are also allowed to do it
4 under Federal regulations. So it is a matter of changing the
5 State banking code to be more responsive in that area.

6 MS. FLEISCHER: That is something that could be done
7 regardless of what happens to the Permanent Fund.

8 MR. RICHARDS: I think most bankers, or at least I
9 would concur with some sort of mobile system or parttime system,
10 or some sort of device to make remote banking efficient.

11 MR. LOVE: The Permanent Fund, a lot of people think
12 it is to provide loans to Alaska residents. I think what would
13 be helpful to the Committee is some indication of the areas
14 where the Permanent Fund might fill gaps that are not otherwise
15 met, either by the bank's own portfolios or secondary money
16 market. And I feel like right now I don't feel we are working
17 with very objective data. We've never really had the banks tell
18 us where those unmet needs are.

19 MR. RICHARDS: We would be happy to.

20 MR. LOVE: Secondly, I think at some point and you may
21 or may not be the proper person to draw on for information, I
22 would like to know a little bit better how we can interface with
23 S & L's credit unions. I know there are some that say, S & L,
24 we're going to have different types of problems -- the impact of
25 the Permanent Fund on savings and loans some people say is going

1 to be different than the impact on commercial banks. I would
2 like to know how the difference. And also a little bit more
3 about the credit unions. You may prefer to defer to other
4 consultants on this matter, I'm not sure.

5 Also, Senator Kerttula earlier got into a dialogue with
6 Frank Murkowski about some of the problems in the past, the
7 Development Loan Corporation or something like that, and some
8 of the areas where he thought the banks had taken advantage of
9 the State. The State had made money available to the banks to
10 make loans. And we told him, Frank Murkowski, that we would
11 like some specific proposals submitted to us that would outline
12 how they think that we ought to balance -- safeguarding the
13 public's interest. This is obviously public funds being invested
14 by the bank. That in itself would present a problem if the bank
15 didn't have to take the loss. What I am saying, the members of
16 the Committee, we're going to come up with some recommendation.
17 The State's interests have to be safeguarded in these types of
18 investments, and I have a vague notion that has to be done
19 somehow. I am not sure of the best system and I would like you
20 to provide us with a recommendation.

21 Also, another area and this has to do with just some
22 dollar figures. We sort of know that the banks are not
23 providing money in the secondary market. I would like some
24 figures at some time over what the total dollar amount is made
25 annually in mortgages. Roughly, how much of this is by Federal

1 agencies, how much by Unions. So we kind of know the dollar
2 amounts currently we are dealing with so we can understand a
3 little bit more about how the Permanent Fund relative to its
4 size fits into all these overall pictures. Secondly, besides
5 mortgages and things like that, the amount of consumer loans that
6 are being made, the different kinds of Alaskan loans so we've got
7 of a detailed picture of just how all these investments -- how
8 these markets are being served. We are asking each person to
9 give us some figures, the utilities, the fisheries said they
10 didn't know yet how much they wanted. But before we start
11 making a lot of grandiose plans for the Permanent Fund, we have
12 to know what the needs are in the State to what we're looking at
13 in terms of this money. Then we can look at decisions about
14 whether or not we want to get into leverage and make direct loans
15 and things like that. These are the types of things I would
16 like to see provided relative to how the banks fit in with the
17 Permanent Fund.

18 MR. RICHARDS: I feel confident that I can respond
19 adequately to the first three. To your fourth there is a data
20 problem in terms of -- we can estimate, we can come up with some
21 sort of rough estimate I think, but ---

22 MR. GALLAGHER: That information may be available in
23 the semi-annual report we send to FDIC. You tell them in one
24 of those reports just what loans you make and which ones you
25 sell.

1 MR. RICHARDS: That's true, but whether or not FDIC
2 is going to ---

3 MR. GALLAGHER: Or are you going to go to the State
4 Banking Commission.

5 MR. LOVE: You say you think the State should move
6 into the long term money market -- just overall ideas about the
7 total amount of money to commit to the long term investments or
8 that we could commit -- that the market probably wouldn't be
9 over saturated with, whether it's mortgages, take out loans on
10 various resources or something else.

11 MR. WOHLFORTH: Are there other questions.

12 MR. WALDOCK: Bob, would you mind exploring a little
13 bit more in depth in regard to your -- second to your last
14 paragraph in your presentation today in regard to the competition
15 of the Permanent Fund and the banking system. I understand from
16 what I read here that you are implying that you think we ought
17 to concentrate as Committee members toward larger sums of money
18 and longer term structure for these monies rather than to
19 participate in the shorter term type vehicles.

20 MR. RICHARDS: For two reasons. One, I'm no political
21 scientist, I'm just another guy off the street when it comes to
22 this observation. But it seems to me that the Alaska, the very
23 nature of this thing that Alaska voters approved, the Permanent
24 Fund, and all the talk that I have ever heard about this subject
25 has some sort of connotation of long range permanency. It's my

1 guess as just another guy off the street that was what the
2 Alaska voters intended.

3 The second reason is all the other paragraphs that led
4 up to the last paragraph, there is, in my opinion, existing a
5 very efficient mechanism for handling the short term credits.
6 And I think it is more efficient than any other mechanism that
7 could be established. This is not to preclude the Permanent
8 Fund from investing in some short term credits, but I think they
9 should do it more in the way of purchasing, participation with
10 local financial institutions. It's more efficient.

11 MR. GALLAGHER: One comment I have made here from time
12 to time, I see the banking structure in Alaska resembles a rural
13 economy with small short term deposits, or very little long term
14 deposits and quite a bit of short term deposits. Is there any
15 data available to show the legion of financial institutions that
16 go together in a mature economy, let's say like in California
17 you'll have insurance companies. Is there financial data
18 available that shows all those assets per state and how they
19 make up?

20 MR. RICHARDS: I am not aware of any in a meaningful
21 way because, you see, those -- the State data is a reflection of
22 the headquarters of those various firms and they could be
23 investing in loans all ---

24 MR. GALLAGHER: The reality of the matter is quite
25 often they use the investment within 50 miles of headquarters

1 though. Loan officers intend to loan to things that they are
2 familiar with. If the home office is in San Francisco, they
3 tend to lend in the San Francisco area.

4 MR. RICHARDS: Yes, but I just don't know what portion
5 the Bank of America -- maybe they're a bad choice but certainly
6 others, Security and UCB and Union bank. I may be able to draw
7 some inferences from this but that would be --- I concur with
8 your original thesis that the deposit mix in the Alaska bank
9 tends to reflect a rural economy and there is not the mature
10 deposit, so to speak.

11 MR. GALLAGHER: Is there any data that you might be
12 aware of that could prove my thesis?

13 MR. RICHARDS: No, but I'll look for it.

14 MR. WALDOCK: Bob, would you mind clarifying for me
15 what is the length of a short term loan and what is the length
16 of your long term loans? What I am trying to say is, I would
17 like to know what you mean by a short term loan, i.e., what the
18 commercial banks are doing versus what you think the Permanent
19 Fund should be doing in regards to length of time.

20 MR. RICHARDS: I think more than maturity is -- I could
21 give you a textbook answer to that question but it would be
22 meaningless in terms of Alaska. I think rather than the maturity
23 is the implied market. I think that Alaska banks are well set up
24 to take care of credits that originate from Alaska families and
25 businesses. I am not asserting that there are not some gaps, as

1 suggested by Jamie. I think there are some gaps. How large
2 they are, how significant they are, I don't know. But I think
3 the Alaska banking system, at least is set up to take care of
4 credits generated by local Alaska businesses and families.

5 But to give you another kind of response to your
6 question. They make consumer loans that are as long as ten
7 years. The textbook answer is a commercial bank makes loans to
8 businesses for less than a year and they are paid off within
9 that period. That's a nonsensical definition in terms of
10 Alaska and many other areas as well. It's kind of more the
11 market perceived by the enterprise. The Permanent Fund, as I
12 have suggested really from the outset, should be oriented more
13 toward the larger -- oh, for lack of a better word, economic
14 development types of loans. In terms of what its organization
15 does, I'm not saying they should just invest in those kinds of
16 loans. If they invest in local loans or loans of families and
17 locally owned businesses, so to speak, I think that can best be
18 done through the Alaska banking system on simply the basis of
19 efficiency.

20 MR. WOHLFORTH: I can remember, if I may, the time of
21 the lease sale in '69 the banks were anxious and properly so to
22 be considered for State deposits and, indeed, substantial amounts
23 were deposited with the banking system and some money, I think
24 25 million was put up on a 10 to 14 year basis. The colloquy of
25 the bankers at that time reflected an underlying fear that even

1 though the deposits were made on a long term basis that, in fact,
2 they might not be. And at least one had a perception, one
3 couldn't prove it, that their ability to really use these
4 deposits in a meaningful short term commercial loan was inhibited
5 by the perception that the deposits were vulnerable. Do you
6 think that deposits from a Permanent Fund, in quotes, would carry
7 that same kind of banking apprehension or not. Do you think
8 that deposits would be more meaningful did they come from a fund
9 of this nature rather than the General Fund?

10 MR. RICHARDS: Yes, I definitely think so. I definitely
11 think so. I'm glad you raised that because there are way in
12 which the Fund can influence indirectly the type of lending
13 activity of Alaska banks. And if you place long term -- except
14 for this apprehension -- if you place long term funds with bankers
15 that don't have that apprehension, the bankers will feel more
16 inclined to make longer term loans. Getting back to perhaps
17 some assertions that Senator Kerttula made this morning -- I
18 wasn't here. But just because I'm saying -- suggesting one
19 thing you might do is buy the loans from commercial banks. I am
20 not implying this be done willy-nilly, but you can tie all sorts
21 constraints around this or criteria. If the manager of the
22 Permanent Fund concludes that certain loans, certain types of
23 loans ought to be made in certain places, they can say, we will
24 buy these types of loans made in these types of places.

25 But to repeat my answer to your inquiry, I think the

1 attitude on the part of Alaska bankers is such that long term
2 CD's, let's say for example, purchased by the Permanent Fund
3 would be perceived as stable long term deposits and, therefore,
4 would find their way into those kinds of loans.

5 MR. GALLAGHER: In talking about vis a vis making a
6 loan direct and putting deposits, when FDIC looks at its
7 financial institutions they usually require certain asset mixes
8 and capital structure bases. By putting in deposits are you not
9 creating a cost to the bank to have a certain capital structure
10 that may not be reflected in its natural capital asset
11 structure?

12 MR. RICHARDS: You are absolutely right. The response
13 is inquiry, it implies within the bounds of prudent asset
14 management, you bet, or liability management.

15 MR. GALLAGHER: I think Alaska banks are more in the
16 liability management than the asset management.

17 MR. LOVE: All these things you are saying about banks
18 could be equally applied to credit unions.

19 MR. RICHARDS: I don't think I am particularly qualified
20 to respond to the matter of credit unions. They are under a
21 whole different set of laws with which I am not familiar.

22 MR. LOVE: My suggestion to the Committee would be, if
23 we are going to pursue this idea of having banks making a
24 certain number of loans, we also ought to analyze equally the
25 possibilities of doing the same thing with savings and loans and

1 credit unions.

2 MR. GALLAGHER: The credit unions aren't in that
3 business. There's no institutional thing that is against it but
4 they have never been in that business. S & L's are very much
5 in that business.

6 There is one difference between S & L's, credit
7 unions and banks under their financial charters. S & L's and
8 credits unions cannot collateralize deposits. That has been a
9 thorn in the Department of Revenue's side when we put out
10 deposits. One has to collateralize it 100 percent, and the
11 other ones by the FDIC regulations, or FLIC, and those other
12 institutions cannot pledge assets. Public trust and having some
13 connotation of public trust and security. Those two
14 institutions because of their nature and because of those
15 restrictions do not have as much security.

16 MR. LOVE: Would that be the same thing on mutual
17 savings banks?

18 MR. GALLAGHER: No. Under FDIC regulations.

19 MR. CRAWFORD: Bob, is there a substantial demand
20 that is not being satisfied? Is that true?

21 MR. RICHARDS: Well, I have to respond to that question
22 as an economist. As you know supply and demand always clear at
23 the market price. And I don't know whether the demand for
24 toothpaste in Alaska is being satisfied or the demand for --
25 pick any product you want. In economics, demand is always

1 -- supply and demand always equal. So the implication that
2 demand is not being satisfied definitely implies some sort of
3 value judgment being made on the part of the asserter.

4 I don't mean to be begging the question at all. But too
5 often this assertion -- frankly, I think it is a naive assertion
6 and to give a naive assertion a sophisticated response, it just
7 cannot --- Naive in the rigors of economic analysis, not naive
8 necessarily in the understanding of the world, this sort of
9 thing. I know that from time to time comments are made on the
10 street by people that the banks aren't loaning enough money.
11 That is like somebody saying on the street John Stepp isn't
12 selling enough Fords or Larry Carr isn't selling enough
13 groceries. The banks are in business to loan money. And banks
14 want to loan money. And every bank that I know of in Alaska
15 is loaning just as much money as it can consistent with its
16 judgment regarding the credit worthiness of applicants and
17 liquidity considerations.

18 MR. CRAWFORD: Is money tight now?

19 MR. RICHARDS: Well, putting on my economist's hat,
20 no.

21 MR. GALLAGHER: You earlier though spoke of
22 institutional sort of problems. You referred to commercial
23 banks lending short. If the need in the State is long lending
24 then there may be an unfilled need.

25 MR. RICHARDS: That could very well be. You're right,

1 there very well may be a demand for more Jeeps, but that is no
2 criticism of John Stepp. I assume -- are commercial banks
3 doing enough of what they are supposed to do.

4 MR. LOVE: Can you get a home improvement loan for
5 5,000 dollars from most banks?

6 MR. RICHARDS: Sure.

7 MR. LOVE: That is not what I've been told by people
8 that work in mortgage banks. They say they can't make enough
9 money on them, they don't like to process the paperwork. They
10 tell me opposite. This gets back to, are there areas that
11 aren't being serviced. Maybe that is an area for the Permanent
12 Fund to look at.

13 MR. CRAWFORD: That wasn't the basis of the question.
14 With the documentation we have been presented and the analysis
15 for the western states. The purpose of the question, I guess
16 is there are substantial demands now which are not being met,
17 which I think you answered.

18 MR. WOHLFORTH: I think that in any what we call --
19 have to really call an offshore problems like Alaska with a
20 relatively young banking system, a young and volatile economy,
21 there's going to be a lot of basic dissatisfaction with the
22 banking services, real or perceived, it's the nature of the thing.
23 The banks represent to a lot of people, you know, a kind of
24 money center which they don't like.

25 I would like the discussion, if we can, to get off a

1 little bit of examination of the adequacy of the banking system
2 because I don't think we can hope to resolve that in an
3 objective sense, but into a little more of the details. Some
4 of the observations that Bob Richards has made. He stated, and
5 I don't think you have to be taxed with it as having been
6 stated as an absolute certainty, that the larger loan, the longer
7 term loan, and Murkowski said the same thing this morning, were
8 probably a thing that the Permanent Fund should be looking at
9 and not disrupt the credit mechanism of the banking system which
10 is to some extent satisfying and servicing the shorter term
11 smaller amount of loan category. I think, however, that is
12 something we are just beginning to approach in this Committee.
13 That assumption needs a very rigorous testing. The consultants
14 from White Weld and others are aware of development corporations
15 in some of the Canadian provinces that have made some very
16 serious mistakes in large loan situations.

17 MR. FLEETWOOD: A short term loan is 5 years or less.
18 (inaudible) Their policies, what they do with their funds is
19 based on where their capital comes from. Principally, they are
20 involved in making loans and investments and their loans are of
21 the short intermediate variety and their investments usually
22 cover securities. They are prohibited by law from making equity
23 investments. I don't know the local policy with respect to banks
24 and whether they do reach out for longer loans. Funds in
25 development banks have a completely different capital structure.

1 80 or 90 percent of their capital is either equities and long
2 term and the other 10 to 20 percent is perhaps short term in
3 nature. So these funds in development banks. (All the rest
4 of this inaudible)

5 MR. WOHLFORTH: To me your comments are helpful, maybe
6 bringing us back on the track a little bit. Is there a demand
7 for long term credit? Is there a real demand for long term
8 credit? What does real mean? Does that mean there are projects
9 which should be financed now and which are not because of lack
10 of long term capital.

11 MS. FLEISCHER: Do we have the answer to that question?

12 MR. WOHLFORTH: I said two meetings ago I think it is
13 probably one of the central questions to the whole concept of a
14 development loan bank in the State. We don't want to set up a
15 credit mechanism which is inappropriate to the economic scene
16 and climate of the State. Everyone in his own mind's eye has
17 perceived the capital needs for Alaska but nobody, it seems to
18 me, has a real grasp on what they are, are they being unmet now
19 for lack of capital.

20 MR. BARNES: I think Bob alluded to the difference in
21 the Alaska banking system to the United States banking system and
22 is very substantially different. And I think it illustrates that
23 the Alaska banking system a mortgage banking system plus we are
24 filling a gap and that gap is real estate monies. That's where
25 the real need is. We have to now write our mortgages to the

1 underwriting standards of Outside lenders. Someone sitting down
2 in Washington tells us the criteria we have to use if we're
3 going to sell them loans. And those, in many cases, are not
4 realistic Alaska criteria. They will say we won't take anything
5 that doesn't have streets, gutters and sewers. That eliminates
6 half of Anchorage and certainly the rural areas. So, why don't
7 banks make more mortgage loans on the Kenai Peninsula, we can't
8 sell them. They don't meet lenders' criteria. If the State had
9 a program in which these criteria were eliminated, that I think
10 would serve a real purpose.

11 MR. CRAWFORD: I notice on the agenda tomorrow we get
12 into the structure. We still haven't decided what our goals are.
13 I think we continue to put the cart before the horse. I think
14 we should decide what the objectives of the Fund and in what
15 direction we want to go.

16 MR. WOHLFORTH: Do the members feel we are making any
17 progress in our thinking? In the discussions we have had, are
18 the areas sharpened in your minds, the issues that the
19 Legislature has to face and I see them facing it this year and
20 perhaps next year in determining the goals and the areas where
21 this Fund can be effective.

22 MR. LOVE: I think some of the most important things
23 we can do now, I don't think this Committee can commit the State
24 towards goals in different directions. I think the best thing
25 that we can do is that, if you embark on certain goals, these

1 might be some of the structures which you might want to look at,
2 if we want to get into development banking. I'm not so sure
3 that it is going to be too fruitful for us to presume that we can
4 set goals, social goals for the Fund. I think what we can do is
5 getting some good background in terms of types of vehicles and
6 the structure that is necessary. I think we should get some
7 facts before us. So when the public begins to deal with these
8 decisions about goals, that they have better information and
9 understanding of the program and they also have before them a
10 bunch of different alternatives and choices so that they are
11 making their decisions based upon the best educated and most
12 sophisticated understanding of the whole thing.

13 MR. CRAWFORD: We have heard comments from various
14 people about public utilities, secondary mortgages, and
15 fisheries and several others. One of the bases for decisions
16 is how big a pie there is to split up, which we don't have.
17 Can we get projections as to what is going to be in the Fund.

18 MR. GALLAGHER: I think Bob Barnes' point was well
19 taken. I think under that context is what tomorrow's session
20 is about.

21 MR. WOHLFORTH: I think it is frustrating for any
22 group to be thrust with any job of finding the goals. And it is
23 possible you can only get to it through a process of discussion,
24 if you will, of segments of lending activities or capital needs
25 in the State. Then the goals could conceivably begin to emerge

1 as the understanding of what we are dealing with is developed.
2 I, for one, like the question, What Went Wrong. That is to say
3 at least we can be aware of some of the positive things that
4 have happened elsewhere that we want to avoid and we can transmit
5 that to the Legislature. That seems like a valuable effort.
6 I honestly think it is completely unrealistic to say we'll sit
7 down at 9:00 o'clock tomorrow and determine our goals. That is
8 my own private view.

9 MR. EDENSO: Mr. Chairman, I don't think anyone intends
10 tomorrow to try to identify the goals or objectives, or for that
11 matter, what you will do with the income once you have earned it.
12 I think that will take a public process, public participation
13 process that will include several months and a great deal of
14 effort by a legislative body plus a whole number of dollars
15 which we don't have. However, we do have a task before us and
16 one of the easier portions of that task is to address what kind
17 of structure and organization we may have. I think if you take
18 it in the context that we do want to provide some kind of social
19 service or social good or if you do want to provide some economic
20 development activity or if you do want to provide some community
21 development activity than you can begin to talk about structure
22 and organization and management. I think that we are very
23 seriously remiss in our thinking if we can assume that we can go
24 along between now and January, meeting every month, every two or
25 three weeks at the company's expense without coming up with a

1 product.

2 I fully intend to see that this Committee has some
3 kind of product before the legislative body in January. That
4 may mean taking each one of us out behind the barn and settling
5 our differences, or it may not mean that. I am hopeful we will
6 get a lot of cooperation. This is a constructive effort, we are
7 trying to construct something. We are trying to construct a
8 Permanent Fund. We have hired some very expensive, very talented
9 consultants to do that for us. We've got them here, we've had
10 them here several times. We have spent a considerable amount of
11 money. You have listened for literally hours on end to them
12 describe different kinds of organizations, different kinds of
13 funds and I think it is about time we started taking a cut at it.
14 You know, at least a significant portion of our task. To
15 divide the task up into three major categories, one is what are
16 the goals and objectives. I don't believe we can answer that.
17 I don't believe we have either the time or the money available
18 to us between now and January to do that. A second is, what
19 kind of organization, what kind of structure, how does that
20 relate to the general public, how does it relate to the
21 legislative body and how does it relate to the administration.
22 I think we can address that. I think we can take some real
23 significant cuts at it and come up with very sound, very well
24 based ideas. And, finally, you do have a problem of what do you
25 do with the income of the Permanent Fund. How you distribute

1 that, how you directly benefit Alaska. I think, again, we are
2 talking about a large amount of time and a very large effort on
3 the part of this committee and on the part of a number of other
4 people. We don't have that time. We do have a committee and
5 we may be able to talk about it. There have been ideas kicked
6 around such as Alaska, Incorporated, such as tax benefits or tax
7 rebates. The only thing that is lacking in that is our
8 imagination and how to address the problem. So, again, I think
9 we do have a task. I'll really put it before the Committee. I
10 think the Committee ought to begin to sit down and look at it.
11 One of the reasonable things we can do is talk about structure
12 and organization. And I think one start at that is what went
13 wrong with other efforts. What kind of mistakes have been made.
14 And then from there just get into a general working session and
15 say, "Look, maybe we want a dual board system or maybe we don't".
16 There are all kinds of questions that that could raise. With
17 that I would ---

18 MR. GALLAGHER: With the basic assumption that you do
19 want to look at this sort of management structure given this
20 sort of goals and objectives.

21
22 (MEETING RECESSED AT 4:50 P.M. AND TO
23 RESUME AT 9:00 O'CLOCK, NOVEMBER 6, 1976)
24
25

1 (CHAIRMAN WOHLFORTH CALLED THE MEETING TO ORDER
2 AT 9:00 A.M., NOVEMBER 6, 1976)

3 MR. REGIS: This is the second report of Price,
4 Waterhouse. If you recall, the former report was given by Pete
5 McDowell. That first report was a comprehensive look at matters
6 affecting the security and protection of any prospective fund
7 to be established with the proceeds associated with the Alaska
8 Permanent Fund issue. By contrast, this is a specific issue
9 oriented question which was given to us through Jim Edenso and
10 Jim Rhode.

11 We were presented with three specific questions which
12 this report attempts to address. The first was, what
13 development banks had gotten into trouble and why. Secondly,
14 from our experience with development banks, what are our
15 preliminary views as to an appropriate policy level and
16 operating structure for the Permanent Fund. And, lastly, and
17 this was primarily in response to a question which was posed in
18 the prior presentation, what are some of the specific criteria
19 by which the success of development banks -- development bank
20 efforts are measured.

21 First, let's take a look at the problems associated
22 with development banks. The only notorious and widely-known
23 case of a development bank failure or what can be called very
24 close to a development bank failure, occurred with the development
25 bank of Ethiopia. This also happened to be the very first

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1 development finance company which was funded by the World Bank.
2 A development finance company, you may recall from McDowell's
3 prior presentation, is in reality just a smaller version of an
4 international development company. And the primary distinction
5 is that its concentration is in one geographic area and tends to
6 concentrate on smaller dollarsize issues as opposed to the large
7 things associated with an international finance company.

8 In this particular instance -- let me step back for a
9 minute, I said that this is the only widely-known case of a close
10 to failure. There are some specific reasons for that which I
11 will go into a little bit later. But for the moment,
12 concentrating on the Ethiopian bank. The problems probably
13 began as a result of a split between the agricultural and
14 industrial sections of their charter. Originally, it was a
15 multi-faceted institution. And subsequently the agriculture was
16 retained and the industrial section was put off in a separate
17 development bank. Now, from what we have been able to determine
18 the causes for the problems subsequent thereto were essentially
19 four. First of all, the only thing left with this bank was the
20 agricultural area. There was too much concentration in that
21 particular sector of the economy. Crop failure or whatever,
22 there was not adequate diversification to protect that portfolio
23 as a whole. Secondly, the key issue, the loans were much too
24 small. Too small to be adequately supervised, too small to be
25 processed efficiently. And, in turn, by their size alone, as one

1 would guess, they were to mostly unsophisticated borrowers who
2 did not properly use the proceeds to expand production and as a
3 result were unable to repay many of them. Management, and this
4 again is a key issue, management was simply not adequate to the
5 task. And, finally, the control systems which were devised for
6 a multi-faceted bank and which were set up to handle a larger
7 volume, or larger single value portfolio, were not probably
8 revised when they went to a small organization.

9 These problems were recognized with the Ethiopian bank
10 and it was remerged into the industrial bank and, at the present
11 time, it appears to be operating successfully.

12 At the outset, I said that there were no known
13 failures and very few notorious examples of problem banks. That
14 requires a bit of comment. For the most part, development
15 finance companies, which are the most risky of all ventures, can
16 be shored up by the local government so they are understandably
17 reluctant to wash their dirty laundry in public, and it is very
18 difficult to find case by case information. Our discussions
19 with World Bank and other associated with them on a no-name
20 basis and trying to concentrate on issues as opposed to specifics
21 gave us a laundry list, if you will, of common reasons why some
22 of the other banks had gotten into unpublicized trouble. And
23 the reasons, again, are pretty much the same as the Ethiopian bank
24 with some diversification but essentially they are: Incompetent
25 management, unusual or undue political influence, and lack of a

1 clear operating mandate. And in some cases, there is also one
2 final one and that was too ambitious a program.

3 A summary of lessons which could be learned from these
4 experiences would be first of all that the operating management
5 must be very capable as must the Board. The appointment power
6 must be removed generally from the political influence so that
7 operating management can and does indeed exercise prudent
8 decisions. The charter of the institution must clearly define
9 the objectives. Impossible objectives should not be set. If
10 you wish to loan a certain dollar value of money, it isn't any
11 trouble to throw it away. And, finally, government influence
12 must be reasonably controlled so as not to dilute the
13 independence of the institution.

14 The second issue had to deal with organizational
15 structure. Perhaps I will save that for the last in order
16 because it probably will elicit the greatest comments and
17 questions.

18 Perhaps we will move on to page 6 of this report about
19 measurement techniques. This question primarily arose from a
20 -- one of the Committee members asked, what criteria other than
21 simple ability to repay were used in determining whether or not
22 a program was successful for a development bank. First of all,
23 most of the organizations we presented to you in the prior
24 report were World Bank or World Bank-affiliated, or somehow
25 associated with receiving funds or whatever. The World Bank has

1 a section called Operations Evaluating Department, or some words
2 very equivalent to that. The function of that particular
3 organization is solely to evaluate the results of particular
4 programs which are undertaken. At the completion of every
5 project, there is a very detailed project completion report
6 submitted by the various sections involved in making the loan.
7 And this is reviewed by the OER Department. From time to time,
8 the OER Department also specifically audits some of these
9 programs and looks to the report to see that it is indeed
10 factual. The thrust of the evaluation process in the World Bank
11 and its affiliates is that it is both inward and external. I
12 use the word inward intentionally as opposed to internal-external.
13 Inward meaning that they use both the borrower, borrower's
14 consultants, other third parties, to measure the success of the
15 project as well as their own internal staff. The purpose
16 obviously being to avoid the prospect of the bank considering
17 its own beauty in the mirror.

18 Evaluation is really a 3-fold process. The primary
19 thrust is a comparison of actual to plan as it was originally
20 proposed when the project was brought to World Bank or World
21 Bank actually sought it out.

22 There are a whole series of specific things which are
23 compared in this actual plan which include implementation, just
24 how quickly it was done, if it was done in the same time as
25 proposed, has a serious impact of a host of the benefits

1 intended. Compliance, did the borrower and the government
2 associated meet the loan covenants and so forth. Did the
3 consumer perform as expected. Questions relating to that. What
4 is the financial performance of the borrower. That is the
5 obvious one. What is the economic impact to the extent that it
6 can be measured. Regretably this is probably the most nebulous
7 area and perhaps one of the prime objectives. Unfortunately, it
8 would take a number of years to really assess it in many cases.
9 And, finally, a question of efficiency. Efficiency on the part,
10 primarily, of the lending institution. Could or should other
11 projects of this like be offered and can it be done in a more
12 expeditious manner.

13 The second thrust is a macro view of the impact on
14 the economy of the country or the area, whatever was intended
15 and this would be cumulative as opposed to individual. Annually
16 within World Bank there is a report by the Evaluation Section
17 which measures the cumulative impact of all the projects. And
18 this macro view is designed to see whether you help employment,
19 income redistribution, whatever else was intended in that
20 particular country, has the standard of living increased,
21 whatever.

22 And, finally, is the suggestion at the outset that the
23 thrust is inward. Can we do a better job? Was the performance
24 of the bank actually appropriate to the circumstances presented
25 to it? Was the diagnosis of the borrower's needs appropriate?

1 Was the definition of the objectives of the project correct at
2 the outset, understood, whatever. Were there unintended effects,
3 either good or bad? Poor or good environmental impacts? Was the
4 bank participation effective or was it detrimental. The purpose
5 of all this is to restructure activities in the future -- future
6 efforts.

7 Let's move back to page 3. It starts on the end of
8 page 3, Organizational Structure. This is the first, I guess,
9 question for the most part asked of us in terms entirely
10 judgmental call. So far, I think most of our input has been in
11 terms of comparison with other associations with the possible
12 Permanent Fund. For input only this would probably be the first
13 conclusion. This is a very tentative one and there are a
14 number of factors yet to be decided.

15 The question essentially is, what is the appropriate
16 organizational structure at the policy level for the Permanent
17 Fund institution assuming that development financing is a
18 significant part of the activities. The objectives that we were
19 trying to achieve when we set up this -- our conclusion is
20 essentially it should be a dual board structure. I'll get into
21 that in more detail. The objectives that we were trying to
22 achieve with this dual board structure. First, we wanted to
23 avoid undue political influence while being yet responsive to
24 the political system. We wanted to provide for public input.
25 We wanted to make sure that the organization allowed the

1 selection of the most capable people. And, finally, we wanted
2 to make sure that the organization preserve the operating
3 management's prerogatives ordinarily associated with management
4 exercise.

5 The dual board structure is composed -- our suggested
6 dual board structure would be composed of first a board of
7 citizens and secondly a board of directors. The board of
8 citizens, the primary purpose, in our view, in this board of
9 citizens is to react and to act and suggest changes in the
10 charter. Secondly, it's purpose would be to represent, if
11 you will, the citizens of the State of Alaska and voice their
12 views with respect to the operation of the Fund. I should not
13 say secondarily, it is equally primarily. But that second
14 objective would be accomplished through an annual meeting very
15 comparable to that which is held for normal corporations. This
16 board of citizens could be composed of two -- and that is only a
17 suggestion -- two members from each Senatorial District. We
18 used that since that would be the easiest in terms of trying
19 to preserve one man, one vote at this point. It is suggested
20 the board be composed of two members, elected by popular vote
21 from each Senatorial District, to a term of either two to four
22 years. But to coincide with the election of the State
23 representatives, or the election of the governor or members of
24 the Legislature. The purpose, of course, to get the maximum
25 amount of input into these races.

1 The board of citizens would meet annually only unless there were
2 some other special purpose. They would not be compensated
3 except to the extent of expenses. And essentially they would be
4 representatives in what might be termed Alaska, Inc.

5 We were also asked if we felt that a popular election
6 of some portion of the board was appropriate, why we might feel
7 so. I think there are three reasons. The first would be that
8 it allows the public input in the sense that the wishes of the
9 majority of the State can be expressed. The views and concerns
10 of minorities in geographic areas. Finally, it does in reality
11 give life to the concept of Alaska, Inc. There is a very close
12 analogy with the representatives elected here being very
13 comparable to the board of directors or the board of governors
14 being elected by shareholders.

15 Now, the board of directors. Our view of the board of
16 directors is that initially it be composed of a group of, say
17 7, it could be as high as 11, that is a matter of choice. But
18 we said for the moment 7 members who would be appointed by the
19 governor, staggered terms, so no one gubernatorial candidate
20 or elected official can control it. And to be confirmed by the
21 Legislature so the Legislature has its input. The board of
22 directors essentially, and the key here is that in our view it
23 is a policy making board. It receives and acts on the issues
24 presented to it by management but does not intervene in
25 management in the sense that it does not present specific loans,

1 it does not suggest geographic redistribution emphasis, whatever.
2 Its purpose is to set policy and to react to input provided by
3 the staff.

4 The president of Alaska Permanent Fund, in our view,
5 should be appointed by the board of directors. The key issue
6 here would be the strength of this individual. He should have
7 the power to conduct all the ordinary business of the
8 corporation, hire, fire, be responsible only to the board in the
9 sense of what is normal prerogatives of management. He would
10 serve also ex-officio as chairman of the board of directors but
11 would have no vote.

12 Those are our views on the three questions presented to
13 us. Are there any questions you might have?

14 MR. GALLAGHER: How could that large board and the
15 board of citizens be more responsive than a body that is already
16 elected every two years called the Legislature? Why would that
17 be more responsive to the Permanent Fund?

18 MR. REGIS: I would think it would be more responsive
19 because it has only one issue to deal with. It has only one
20 function, hence the viewpoint of the individual or the use of
21 that function is clearly well established and is not
22 intermingled with a host of other issues.

23 MR. WOHLFORTH: I am not sure the split between the --
24 you state the board shall be empowered to recommend changes and
25 to receive, consider, and vote on statements of policy for the

1 Fund submitted to it by the president of the board of directors.
2 The board is delegated all powers, the board of directors is
3 delegated all powers except those reserved to the board of
4 citizens. Have you thought out how far down in policy the board
5 of citizens goes and where the split is between that board and
6 the board of directors? Do you have any comments on that?

7 MR. REGIS: I believe our view is that the split would
8 be very narrow in the sense that it would be issues that would
9 effect, i.e., for example, an ordinary corporation under the
10 Articles of Incorporation or the bylaws associated therewith.

11 MR. WOHLFORTH: You also state that the board of
12 directors would be explicitly prohibited from suggesting or
13 recommending any particular financing operation to be
14 considered or made by the board. But it would have power to
15 decide on -- let's say loans or equity investments proposed to
16 it by the staff. What do you mean by particular financing
17 operation? Are you talking there of the actual industry to
18 which a loan would be made or the borrower? Is that what that
19 means?

20 MR. REGIS: In our view, the board would decide on
21 issues presented to it and would indeed query very closely the
22 staff on all of the factors that into recommending either for or
23 against a particular loan. But it should not enter into the
24 question of seeking out particular areas of loans other than
25 to say by policy. Now, let's say that our policy with respect

1 to the State is to fund heavily in the agricultural area. That
2 would be the prerogative of the board to suggest to management
3 that these are the kinds of things we are interested in doing as
4 a policy matter. Not to say, put this particular farm on the
5 ballot for us to vote on.

6 MR. WOHLFORTH: You don't want the board members to
7 come in to meetings and say, " this is a great prospect", you
8 want that to be all staff generated.

9 MR. REGIS: Yes, precisely. But it would be the
10 board's prerogative to set the sectors in which the Fund should
11 be operating as a matter of policy.

12 MR. FERGUSON: You are recommending that we have a
13 board of citizens of approximately 40 members.

14 MR. REGIS: Are there 16 Senatorial Districts?

15 MR. FERGUSON: The reason I ask this is because on a
16 few of our boards and commissions we have Judicial Districts.
17 Five Judicial Districts. A board of citizens with 40 members
18 would be unwieldy. It takes the Legislature over 90 days just
19 to consider some of these matters. You can imagine how long
20 it would take 40 people to deal with the Permanent Fund.

21 MR. REGIS: I am a little indifferent exactly how you
22 carve up the geographic areas. I suggested Senatorial. Maybe
23 yours is better. I would not quarrel with that at all. With
24 respect to the unwieldiness, the World Bank has something like
25 140 governors and it works very effectively. And this particular

1 board would meet only once a year with basically 1, 2, or 3 major
2 issues to confront it. It's a very simple function. So I
3 doubt that 40 members would be unwieldy. That is my personal
4 feeling. But, if it is, then you just cut the number back. My
5 reaction is if you can get around 40, 50 whatever it broadens the
6 representation, which is an important feature.

7 MR. EDENSO: Could a board of citizens board member
8 also be a legislator?

9 MR. REGIS: That is a question I hadn't addressed.

10 MR. EDENSO: It seems to me if somebody is running for
11 the State Legislature and there is another board he could run
12 for and be very influential in both areas, it would be a
13 tremendous incentive for him to be on the board of citizens as
14 well as a legislator.

15 MR. REGIS: I hadn't given that a lot of thought. My
16 visceral reaction would be negative. I would like to think about
17 that.

18 MR. LOVE: I guess I missed part of this, but why not
19 just make the Senators a board, have them on the citizens board?

20 MR. REGIS: The reason we suggested that is one of the
21 key objectives, Jamie, that we were trying to accomplish was to
22 allow for positive input from all sectors yet make sure it was
23 not unduly influenced by any one. The Senate is already involved
24 in confirming the board of directors. So if the Senate was
25 involved in confirming the board of directors and was also

1 serving as a board of citizens, it would have disproportionate
2 weight and influence on the Permanent Fund.

3 MR. CRAWFORD: If the board of citizens is a group
4 that is only going to meet once a year, why do we need it?
5 Why would any citizen spend time and money to run for a position
6 that according to your presentation is, No. 1, a nonpaying
7 position and, No. 2, has no -- if they meet once a year, what
8 do they do?

9 MR. REGIS: The purpose of the meeting once a year is
10 to receive the report and the accountability of the operating
11 personnel and board of directors. So you make the Permanent
12 Fund accountable to the board of citizens or, in effect, the
13 electorate itself. And, secondarily, perhaps even more
14 importantly, you want to be able to change the direction of the
15 Permanent Fund if circumstances themselves change. There is no
16 proviso without some kind of public input for the citizens to do
17 that. This way, at least once a year there is a meeting that
18 says, "Yes, are in agreement and the Permanent Fund is proceeding
19 in the right direction", or, "we wish to change it. And we are
20 going to change the direction of the Permanent Fund, here's what
21 we want to do to it".

22 MR. LOVE: One of the fears I have would be the whole
23 issue of how much money they could spend to get elected, who they
24 could get contributions from. It seems obvious to me you would
25 at least have to think about the problem. Say the canned salmon

1 contributed 100,000 or whatever to various candidates. I can
2 see basically the recipients of a potential loan being very
3 heavy contributors to the people who are running for office to
4 decide where these loans are allocated.

5 MR. REGIS: Again, I would go back to the prior comment
6 of making sure there is not undue influence from any one sector.
7 To make unusual contributions to a member of the board of
8 citizens, your prospects of achieving a loan under the
9 protection built into this organization is not great.

10 MR. LOVE: I'm not saying that if I gave you 500
11 dollars -- to a candidate that I'd want a loan for a million
12 dollars. I'm saying a particular industry as a whole deciding
13 that they wanted to make a pitch for investment and that they
14 wanted to support various candidates. Let's say the mining
15 industry decided they wanted to put 200,000 dollars in the
16 campaigns and they weren't saying that you had to loan the money
17 to three corporations or this corporation, just basically we
18 want to set aside 200 million dollars for us to develop -- I'm
19 sure they would have a good argument to develop mining resources,
20 and maybe contributions could be raised through corporations,
21 maybe contributions could be raised through executives or other
22 people connected with the industry. I can show you examples on
23 the last poll control on how money has been raised for various
24 industries. What I am saying, is I am not so sure that the
25 members elected to these so-called citizens boards -- if you

1 make it people that are going to receive major financing from
2 those groups that are looking to get the investments.

3 MR. RIGIS: You would have to work your way through
4 the, both the operating management which is relatively
5 autonomous and the board of directors who are responsible to the
6 Legislature and the governor, I would think that short of a
7 majority being elected that way, which I think would also surface
8 in terms of a political backlash, it would be very difficult to
9 accomplish. To accomplish loans to a particular segment of
10 industry through the citizens board. I don't think that is a
11 great danger, but I do recognize the validity of what you are
12 saying. They could gang up on a particular issue.

13 MR. LOVE: What you are saying is it's not going to be
14 a big problem because they are not going to be that powerful.
15 But I assume the first impact is how the money goes and how it is
16 managed.

17 MR. FREER: I would see the citizens board acting in
18 really a legislative capacity that relates to the Permanent Fund,
19 in meeting once a year and how it has been managed and if it is
20 staying on the track. My comment might be, why couldn't the
21 Legislature sit once a year as a citizens board? They are duly
22 elected by the citizens of Alaska, why couldn't they sit as a
23 board once a year and fulfill the normal functions of a Legislature
24 anyway in reviewing the operation of the fund. That is more of
25 an observation than a question.

1 DR. LOGSDON: One observation might be that the
2 citizens board might be an awfully expensive group to bribe.
3 One thing we are trying to achieve here, as I understand it, is
4 insulation from political processes as it relates to other
5 things other than the Permanent Fund, which might be an
6 argument against the Legislature sitting as a citizens group.

7 MR. REGIS: That is right. That is our viewpoint in
8 suggesting this as entirely separate from the Legislature.

9 MR. BARNES: The function of a citizens board is like
10 stockholders, like having the annual meeting and doing stockholder
11 like type thing and would certainly not pass on day to day
12 operations.

13 MR. REGIS: That's right. Like in an ordinary
14 corporation, it would receive a report from the board of
15 directors and operating management on what the fund is doing and
16 where it is going. And what policy is to be passed upon by them.

17 MR. BARNES: Couldn't the Legislature do that just as
18 easily?

19 MR. REGIS: They could indeed. My thought is I would
20 prefer to see something removed from the Legislature so the
21 Legislature has its input through the board of directors instead
22 of -- as control, as it would be under that method.

23 MR. WOHLSFORTH: There is an analogy too of the
24 Legislature which is supposed to sit as an assembly for the
25 unorganized borough and never has exercised that function. So

1 one would wonder how close attention they would give to this
2 thing.

3 MR. EDENSO: I think an observation is a good many
4 of the residents of Alaska perceived the Permanent Fund as a
5 means of insulating government from the legislative body. I
6 think if we assume that the legislative body will have the
7 functions of a board of citizens or a direct board over the
8 Fund, then what the hell is the whole purpose of trying to insulate
9 the Permanent Fund from the legislators.

10 MR. GALLAGHER: The purpose was to insulate it from
11 undue political influence, not necessarily from the legislators.
12 What you have a dual board structure is to do that. You need
13 the proper political input.

14 MR. EDENSO: I think what I am saying is that the
15 Permanent Fund is viewed as a savings account, whereas a
16 separate fund which the legislative body can in no way influence
17 for budgetary purposes or government expenditures is one of the
18 most often voiced viewpoints in the public media. And if you
19 turn around and set the legislative body as the policy making
20 body on top of the Fund, then you may have, in fact, defeated the
21 purpose of the Permanent Fund.

22 MR. GALLAGHER: I don't see it ---

23 MR. CRAWFORD: An observation is, they can't defeat the
24 purpose, not that they would, of a Permanent Fund if they can't
25 spend the money. As I understand it, that was in the proposal

1 that passed.

2 MR. REGIS: But if they were to function as both a
3 board of citizens and to pass on the board of directors that
4 would give them a chief proportion of the influence. I think
5 that is Jim's point, this insulates the Fund from any influence
6 by the Legislature but still allows very positive influence.

7 MR. WOHLSFORTH: I think we must distinguish between
8 policy and influence, otherwise we are going to be getting off
9 the track very rapidly.

10 MR. LeRESCHÉ: I am still unclear as to what you are
11 suggesting as to where the line between policy and operations is.
12 Let's focus on your two boards for a minute. You used the
13 example of concentrating on agricultural investment. And the
14 way you described it the second board of directors would be the
15 deciding body. Did I hear you say that?

16 MR. REGIS: The board of directors will overall decide
17 the policy of the Fund subject to review by the citizens board.

18 MR. LeRESCHÉ: Then you have the citizens board voting
19 on that policy.

20 MR. REGIS: The citizens board votes on the Articles of
21 Incorporation and the Bylaws and, in fact, passes on the annual
22 report made to it by the board of directors. If the citizens
23 board disagree with the direction of the Fund, they can change
24 that, in effect, through the Bylaws, if they so wish. I think
25 that would also require review by the Legislature at that point.

1 Because basically the Bylaws and Articles are going to be part of
2 the -- so that goes back to the Legislature and so forth as well.

3 MR. LeRESCHÉ: I understand that. But then in your
4 text you also say the board of citizens shall consider and vote
5 on statements of policy submitted by the president of the board
6 of directors. And that is what is confusing me.

7 MR. REGIS: It is also the reason I stopped because you
8 have taken it out of context with the preceding which says
9 "Charter ...and the receive, consider and". If you change the
10 charter you are going to automatically change all the rest of the
11 direction.

12 MR. LeRESCHÉ: But if the board of directors comes out
13 with a statement of policy and says we'll stress agricultural
14 investment and the board of citizens has nothing to say about
15 that short of changing the whole charter?

16 MR. REGIS: Short of reviewing a change of the charter.

17 MR. LeRESCHÉ: So they don't actually vote on that
18 policy.

19 MR. REGIS: Not prospectively, retrospectively it would
20 apply, either endorsing or suggesting a change.

21 MR. LeRESCHÉ: So they can have a positive role, they
22 don't have to sit there.

23 MR. REGIS: They always have the advisory capacity by
24 meeting once a year even if they don't suggest a change in the
25 charter.

1 MR. LeRESCHÉ: So the actual policy sits with the board
2 of directors and the oversight policy is with the board of
3 citizens.

4 MR. REGIS: That is correct.

5 DR. LOGSDON: Let me see if I have this concept clear.
6 What you are talking about is essentially establishing a
7 separate corporation to handle the Permanent Fund. The stock-
8 holders of that corporation are all the citizens of the State of
9 Alaska. In order to have a stockholders meeting and you can't
10 find a room that is large enough to put everybody into, so you
11 essentially select a certain number of citizens and put them in
12 there to represent the stockholders and they perform the same
13 function as stockholders of any corporation.

14 MR. REGIS: Very comparable, yes.

15 DR. LOGSDON: And the reason this is separated in this
16 sense from the Legislature is because you've got a separate
17 corporation. There is no question but that the Legislature
18 represents the people. It's really two separate functions, but
19 because it is a separate organization ---

20 MR. REGIS: That is right. It is a State instrumentality
21 so consequently you do have to put State input in it.

22 MR. MOTLEY: Who are the president and this board of
23 directors directly answerable to? Who could fire the president
24 and the board of directors?

25 MR. REGIS: The president can be fired by the board.

1 The board can be fired by -- either their term expires or they
2 can be fired by the Legislature and the governor.

3 MR. LeRESCHÉ: Which?

4 MR. REGIS: I hadn't given that that much thought.
5 They way that they are put in, course, is that they are put in
6 by -- the governor recommends and the Legislature agrees. I
7 would think they would have to come out the same way.

8 MR. LeRESCHÉ: Do you mean to say they would both have
9 to agree to fire them to get rid of them. The governor appointed
10 somebody and he was confirmed by the Legislature.

11 MR. REGIS: I would think that either the governor or
12 the Legislature could act to remove them. But it would take both
13 to agree just as it does with any kind of legislative matter.

14 MR. LeRESCHÉ: To get them on. But to get them off,
15 that is the question. If either one would refuse to impeach
16 him, then the person could stay on.

17 MR. REGIS: If either one refused, that's right. But
18 I would think that would also have the override protection.
19 Let's say the Legislature wanted to removed him and votes to do
20 so and the governor says no, there still could be an overriding
21 feature that allows the Legislature by a sufficient majority to
22 kick that particular rascal out.

23 MR. LeRESCHÉ: On the Public Utilities Commission, the
24 Legislature voted to knock the guy off and if the governor doesn't
25 like it, it's too bad. It rarely happens, I don't think it has

1 ever happened on the Public Utilities Commission but that
2 accountability is in the law.

3 MR. EDENSO: I am not sure I understand what you are
4 getting at, but it seems to me if the person doesn't know who
5 the hell he's working for, who is he going to take his orders
6 from, the governor or the legislative body or who? Who is his
7 boss?

8 MR. MOTLEY: The line of authority.

9 MR. WOHLSFORTH: We all know the pattern in Alaska is
10 people appointed by the governor and confirmed by the
11 Legislature are dischargeable, serving at the pleasure of the
12 governor with two exceptions, the PUC and the Board of Regents.
13 Previous to about four or five years ago we did pass some laws
14 where people were removable for cause, which meant in effect
15 their terms are absolute. I think that is the context of the
16 way it is now and anything other that is a deviation, which may
17 be proper.

18 MR. FREER: Mr. Chairman, are we working in such
19 virgin ground that there is no background or history of how
20 another somewhat comparable Fund might have been structured and
21 worked successfully? Or are we in something brand-new?

22 MR. REGIS: There is no directly parallel fund from
23 which to draw on.

24 MR. FREER: We're breaking new ground.

25 MR. LOVE: The Alberta fund, how about that?

1 MR. REGIS: The fund is analagous but the function of
2 the fund is entirely different. If you say no to development
3 banking, then Alberta becomes analagous.

4 MR. LOVE: What is Alberta doing? Can you explain that
5 to us?

6 MR. GALLAGHER: I don't understand how Alberta is that
7 much different. Take the word development out of it and then
8 talk about what is different about it.

9 MR. REGIS: Isn't Alberta more concerned with investing
10 as opposed to development and financing activities?

11 MR. GALLAGHER: What is the difference?

12 MR. FLEETWOOD: The Alberta situation is not
13 necessarily dissimilar. The only things that are different are
14 that they have taken a definite stand that they are a fund and,
15 of course, a trust fund in that concept and have removed the
16 option of leverage and I think equity as well. I can't remember.
17 But they have indicated that up to a certain percentage of their
18 fund may be invested in development of some project, income
19 producing project, and have various criteria for those. If this
20 were to end up being a smorgasbord, I think it would be easy to
21 say that Alberta is also a smorgasbord.

22 MR. WOHLSFORTH: Alberta is reasonably new, it hasn't
23 much of a track record.

24 MR. FLEETWOOD: Alberta is very new in terms of having
25 its own capital in the Alberta Heritage Trust Fund. However, it

1 has been making investments all along. And within the original
2 capital, which I believe was a billion and a half dollars, some
3 of that came in the form of previously made investments as opposed
4 to cash. They have invested in capital projects, money market
5 instruments, employment-oriented projects, among other things
6 that they are already invested in.

7 MR. GRUENING: In the Alberta situation, isn't there
8 an assembly, or committee, or its management position more or less
9 the board of directors analagous? I read kind of an overview of
10 it.

11 MR. FLEETWOOD: I don't know the proper terms for
12 Canadian government officials, but to simply it, it appears that
13 their Cabinet members act as the board of directors. And then
14 there is an administrative group below that, which is essentially
15 the Treasury Department. With respect to the socially-oriented
16 projects, their responsibility comes from the Legislature.
17 And with respect to the profit-oriented or preservation profit
18 oriented projects, the responsibility is with the administrators
19 of the operation.

20 MR. GRUENING: You have an executive officer who
21 oversees the whole thing. How is he selected?

22 MR. FLEETWOOD: By the board, the Cabinet members of
23 the board. To be honest, at the present moment the thing is very
24 comingled with the Treasury Department.

25 MR. REGIS: Isn't it true that at the moment it has not

1 done an awful lot of development financing. It has the ability
2 to do these things but it has not yet functioned.

3 MR. FLEETWOOD: As the Alberta Heritage Trust Fund
4 that may be the case.

5 MR. REGIS: But it is not functioning in the
6 development financing area at this moment.

7 MR. FLEETWOOD: No. To really go into it requires --
8 they can go up to 15 or 25 percent in do-good loans..

9 MR. WOHLSFORTH: Why don't we take a break now.

10 OFF THE RECORD

11 ON THE RECORD

12 MR. WOHLSFORTH: Let's get back together if we can.
13 Just before the break we were getting some comments on the
14 structure of the Alberta Heritage Fund and we might resume with
15 those.

16 MR. FLEETWOOD: Prior to that, we were discussing
17 what they had done so far. They have invested in something
18 called SinCrude Development Canada, Canada Cities Services, the
19 Alberta Energy Company, telephone and municipal finance
20 corporations, and liquid money market instruments.

21 They can leverage their assets although they can only
22 borrow from the Treasurer. And while by statute or by
23 legislation they can borrow long or short term, the real thing
24 and definitely what they plan to do is not only borrow short term
25 to cover cash flow -- anticipated cash flow at the end of a month

1 or something, they get 30 percent of the non resource oil
2 revenues and know what it is coming.

3 With respect to structure, they do have a 24-man
4 Heritage Trust Fund investment committee which is all the members
5 of the executive council in my terminology. It was explained to
6 me in terms of Cabinet members. And it is also my understanding,
7 as someone here pointed out, these are also members of the
8 Legislature. I don't understand their political system so ---

9 MR. WOHLSFORTH: It is a parliamentary system, is it
10 not.

11 MR. FLEETWOOD: But this is the provinces and not the
12 nation.

13 As I stated earlier, when they set the fund up, I
14 believe it was in May, they took investments that had been made
15 with the fund in mind, as well as cash, and had established a
16 procedure on which they would evaluate that. They can continue
17 to receive investments and securities made by other areas of the
18 government in lieu of cash, but these investments must stand
19 pretty strict criteria and there are established means of
20 evaluating even the social benefit non-income producing
21 investments for that purpose. They established some up to
22 guidelines with respect to how their funds could be used. If
23 people here determine to have guidelines, which is the only way
24 to do it, if you have specific guidelines of, say, for example,
25 30 percent of the Fund's assets must be in something and 20

1 percent must be in something else, it can only cause problems of
2 operation and may lead even to bad loans at times when you would
3 want to make very good loans, by doing so you may distort the
4 ratios, therefore, you must quickly look for one in another
5 category in order to make the loan that you want to make. Some
6 up to procedures. In any case, they are allowed to invest 20
7 percent of their assets in projects which provide long term
8 economic and social benefits for people that will not necessarily
9 yield a return to the fund.

10 MR. FEGES: A prior question was posed to me, did I
11 see this organization as appropriate if the primary function was
12 to be a development bank. I wouldn't consider 20 percent to be
13 the primary function. And my response is tempered to the kind
14 of organization which would have as one of its primary functions
15 development bank. I think if the smallest point were 20 percent
16 then I might come up with a different answer, but that wasn't
17 the way the question was posed to me.

18 MR. WOHLSFORTH: 20 percent, what about the balance of
19 the 100?

20 MR. FLEETWOOD: 15 percent may be invested in the
21 Canadian or provincial government type securities. Up to 100
22 percent could be invested in income producing social economic
23 diversification and development type projects as long as they
24 were income producing and yielded a return to the fund. And that
25 is in potential development. And up to 100 percent of the fund

1 can be invested in temporary money market securities at the
2 discretion of the Provincial Treasurer. The major purpose there
3 is idle funds are funds waiting to be used in one of the other
4 categories.

5 MR. EDENSO: You said Provincial Treasurer, is that
6 the treasurer of the government of treasurer of the fund?

7 MR. FLEETWOOD: I am responding to the question are
8 there similarities in the goals and objectives. I am not
9 recommending structure. This is very integrated into the system.
10 The Provincial Treasurer is the guy that operates and
11 administrates the fund to all intents and purposes.

12 MR. EDENSO: Is he an employee of the government, or
13 is he an employee of the fund?

14 MR. FLEETWOOD: He is an employee of the government.
15 There is a Gary Beatty who is manager of the Heritage Trust Fund.

16 MS. FLEISCHER: Who is he employed by?

17 MR. EDENSO: I think that answers my question, thank
18 you.

19 MR. FLEETWOOD: The officials in the Treasurer's Office,
20 I have a list here. The officials in the Treasurer's Office are
21 five people. One of them is the manager of the Heritage Fund.
22 But if one were to deal with them, you would deal with any one of
23 the five people. And the five are the Provincial Treasurer, the
24 Deputy Provincial Treasurer, the Assistant Deputy Provincial
25 Treasurer and the Director of Investments, Financial Management.

1 MR. EDENSO: Mr. Chairman, I think what we are talking
2 about is the similarity of the fund, the proposed fund and its
3 activities in Alaska not of the Alberta Heritage Fund. And I
4 think the discussion up to that point of having to do with the
5 dual board system proposed by Price Waterhouse.

6 MR. WOHLSFORTH: I think it was asked if there were any
7 situations which were analagous and I think that led to the
8 Alberta structure. Do we have any more questions on the Alberta
9 structure?

10 MR. LeRESCHÉ: Who hires the executive director?

11 MR. FLEETWOOD: I am not that familiar with it. Our
12 Canadian people are very close to it, I don't know about the
13 appropriateness of the structure, the similarity and purpose are
14 definite. They do report as Dan has been suggested, they have
15 annual reports and a committee of the legislature reviews them
16 on the performance of the fund.

17 MR. LOVE: This is a parlimentary form of government.

18 MR. GALLAGHER: I think I might have a broader
19 definition of a development bank. I think your definition is
20 more narrow than mine. I would see a broader definition and
21 that is why I would see some difference.

22 MR. FEGIS: Are you trying the definition out on me?

23 MR. GALLAGHER: Well, as I perceive your definition of
24 a development bank, it is only for economic diversification.

25 MR. FEGIS: No, I wouldn't say that. Do you mean

1 economic diversification would be the sole criteria?

2 MR. GALLAGHER: Yes, of a development bank. That is
3 what I perceived when you described it.

4 MR. FEGIS: My perception of a development bank --
5 we are using the word bank, but it's really an institution.
6 My definition would be the fund of resources to be used to
7 accomplish basically social objectives which are primarily
8 economic in impact through the private enterprise system.

9 (REPORTER PLAYED BACK LAST ANSWER AT MR. FEGIS'
10 REQUEST)

11 MR. WOHLSFORTH: Now, that you have heard your
12 definition, do you wish to amend it? I think it is a tall order
13 to define the purpose, the structure and the goals. So I am
14 sure people will bear that in mind when they start to tear it
15 apart.

16 MR. LeRESCHÉ: Would you include in your definition a
17 cooperative, say, for example, as a feed into the free
18 enterprise system?

19 MR. FEGIS: I don't think I understand your question.

20 MR. LeRESCHÉ: Would you include things like co-ops and
21 stuff like that as utilized into the free enterprise system?

22 MR. FEGIS: Yes.

23 MR. LeRESCHÉ: Is free enterprise anything that is not
24 part of the government? I want to make sure I understand your
25 definition of free enterprise.

1 MR. FEGIS: In this context, yes. To primarily use
2 the private sector of the economy.

3 MR. LeRESCHÉ: That could include private nonprofit
4 corporations?

5 MR. FEGIS: I would say yes. The criteria would remain
6 the same whether or not the funds were granted to that enterprise.

7 MR. LeRESCHÉ: They are at least equal.

8 MR. WOHLSFORTH: Let's see, where were we. Do you want
9 to pursue this definition of a development bank or turn your
10 attention back to structure? What is your pleasure? Are there
11 any other comments?

12 MS. FLEISCHER: I wanted to ask about several things.
13 You said the question you were answering is, how is the fund
14 to be structured if this is a development bank?

15 MR. FEGIS: If a significant activity were development
16 banking.

17 MS. FLEISCHER: I had a thought on the board of
18 citizens. I don't really see a use for that board of citizens.
19 I think it would be sort of a useless board if they met but once
20 a year and had no real power. In fact, I'm afraid that you could
21 see this as an attempt to tell the citizens that they did have
22 power and they didn't have power and they might be cynical about
23 the board of citizens. I'm not sure whether they should or
24 shouldn't have power but I see that particular setup as a sop to
25 the citizens by saying you would have control over the Permanent

1 Fund through your board of directors. I don't think it is
2 realistic to think that they can change the bylaws, especially
3 if it has to go through the Legislature. And if they did
4 change the bylaws, it would take them a long time.

5 I was wondering if, for instance, the Fund were a
6 savings account fund or even initially a savings account fund,
7 if a decision were made to invest money and then put the income
8 into a general fund, for instance, it would be set up entirely
9 differently.

10 MR. FEGIS: It certainly would, yes.

11 MS. FLEISCHER: Then the Legislature would make the
12 decisions about the money would be spent out of the general fund.
13 So if they decide to invest in fisheries or decided to invest in
14 agriculture, whatever they decide to do, they would make the
15 decision because they would be spending out of the General Fund.

16 MR. FEGIS: I don't think this particular suggested
17 organization would fit those circumstances by any means at all.
18 If you were going to a savings fund concept, the relative risk
19 becomes measurably less. So I am not even trying to address that
20 question. Just as a pure commentary on that, if you are going to
21 go to solely a savings account concept, if that were the primary
22 function, then a whole lot less complicated organization would
23 be drawn up, there is no question about it.

24 MS. FLEISCHER: Maybe we should be doing this, laying
25 out the alternatives. It could be a pure savings account, it

1 could be a pure economic development fund, or it could be a
2 broader economic development fund. Or, it could be a combination
3 of those three things. If it were any one of those, or a
4 combination, the structure would be different. Or, maybe it
5 wouldn't. What I am saying is, maybe we should start saying,
6 if we want it to be purely this kind of fund, then it would be
7 set up this way. Then we would ask, how would you set it up as
8 a savings account fund? How would you set it up if it were
9 going to be a purely economic diversification fund. How would
10 you set it up if it were a broader development fund. How would
11 we set it up if it were going to be a combination of those?
12 What would be a good combination? What percent would make the
13 most sense. Maybe what we should be asking you is, if you
14 would give us the structure of at least those four alternatives.
15 Then we could give it back to the Legislature and say, "Okay, if
16 you want to make this decision, then this is the structure."
17 And other decisions could be made according to how it is set up.
18 Then we could lay out the choices so it would be really clear to
19 the Legislature as well as to the people of the state.

20 MR. GALLAGHER: I agree. That's one of the things we
21 take up in the last hour, just sitting down and discussing
22 whether the likely management --- If your goals and objections
23 are savings account, you're going to have a different one. And
24 I thought we would take the last hour in just discussing that
25 very thing because there are certain implications. Quite

1 obviously, if you only do what is called a savings account, the
2 need for broad input on policy decisions as to what to invest
3 in is a lot -- you don't need that large of a board.

4 MS. FLEISCHER: Because the Legislature will, in effect,
5 be making the decisions.

6 DR. LOGSDON: There is a question that comes up in
7 my mind here as to this citizens board as being any kind of
8 board that can function. On the basis the amendment was stated,
9 I am not certain myself that the Legislature can abrogate their
10 authority through the board to do anything besides what this
11 board here is and that is just to advise in more or less a
12 general sense. I think there will really be a legal decision.

13 MR. GRUENING: I think your point was and it is well
14 taken, that ultimately the goals will have to be established by
15 the Legislature and only the Legislature. That would just
16 clarify some of the problems we had initially -- in which people
17 were alarmed that this group was somehow going to decide the
18 goals. I am bothered somewhat too that we are thinking that
19 whatever the structure is is going to administer the whole fund.
20 I have been thinking that maybe we want to be very modest of that
21 portion of its administering so that we have maybe a track record
22 of -- maybe as much as 10 years before we decide we're going to
23 do something with the other half of the fund. The savings
24 concept, I think -- we were stating yesterday, you heard Mr.
25 Richards state that he thought the voters didn't intend anything

1 but long term investments. I think that is probably farther from
2 the mark than saying they probably intended a savings portion
3 of that. So maybe what we're talking about is a structure that
4 is going to administer a small portion of that fund, at least
5 for the first decade. I am just tossing that out for thought.
6 We may not get too worried about whether this is going to be the
7 structure for the Permanent Fund. And I think Lanie has a good
8 point, we might consider also if it is going to be a savings
9 account administration for a number of years.

10 MR. FERGUSON: I think that is right. I think we can
11 embrace the concept of economic objectives. It is going to take
12 several years of front end investigation and accumulation of
13 capital before you are going to have the ability to do it.
14 You're probably right, for several years probably into some kind
15 of a savings account program and to a lesser extent development.

16 MR. LOVE: I think that one thing we need to start
17 addressing pretty soon before we make any decisions about
18 structure, is a better overall picture of what I think are three
19 important areas. One is a better idea of how capital markets
20 are currently served in Alaska. I think some more actual data
21 as to what markets are being served to what extent by what
22 institutions, what gaps there are, what our perceived needs are.
23 Secondly, I think we have to have a better overview in terms of
24 current loan programs that the State is already managing so we
25 have a complete inventory of what already exists, what the

1 experience of each one of those programs has been, what the
2 successes and failures of our own programs have been. And how
3 much money is involved relative to the amount of money we are
4 talking about being in the Permanent Fund in the next five years.
5 And I think the third thing, we have to have a much better idea
6 as to how the size of the Permanent Fund relates to the overall
7 revenue situation in the State over the next 10 to 20 years.
8 In other words, how big is the Permanent Fund going to be when
9 the State runs out of revenue from Prudhoe Bay. When is that
10 going to happen? And what size is the State's budget going to
11 be ---

12 MR. GALLAGHER: We showed you that at the first meeting.

13 MR. LOVE: Part of what we got was, how big is the
14 Fund going to be. How big is the State budget going to be
15 relative to the amount of money ---

16 DR. LOGSDON: The size of the budget will be that money
17 that is available plus a certain percentage.

18 MR. LOVE: I think maybe if we think we're going to
19 have an incredible bust in 20 years, that a savings account may,
20 in fact, be all of a sudden much more important purpose for the
21 Fund than the development aspect. It may be then that the
22 development aspect becomes more important as we need to develop
23 a broader tax base. I think these are three different areas
24 where we need a lot more data than we presently have. We can
25 realistically make real solid choices in terms of either the

1 goals or the structure.

2 MR. WOHLSFORTH: There is a lot of insight into what
3 Jamie just said. We can approach this thing from the point of
4 view, does there have to be an economic study of just where we
5 are, and a long term economic study of how effective our capital
6 markets are and what sort of projects are ready to be financed.
7 What has been the effectiveness of our existing loan programs.
8 And then even this broader one, how large is the State budget
9 going to be in relation to the Permanent Fund in 10 years.
10 This has implications obviously for the savings account concept.
11 I think these are things that really are worthy of consideration.

12 MR. EDENSO: I think it is really nice to raise those
13 kinds of questions and to seeks answers to them. However, in
14 reality, we are really faced with the question, do we or don't
15 we want to address something called the structure of the
16 Permanent Fund. We could spend the next 10 years studying the
17 nature of the capital market in Alaska and we would find on an
18 annual basis as the price of oil fluctuates the capital market
19 in Alaska so fluctuates. I think what we've got is a question
20 before us, we could consider a number of ways to approach it.
21 And I think, again, that looking into the future, we would be a
22 little remiss in waiting for some period of time. I've heard as
23 much as 10 years structured out there to try to establish the
24 structure of a Permanent Fund. I think in 10 years we'll have a
25 fund that is in excess of at least a billion and a half dollars

1 and it could well be even more than that. We are doing ourselves
2 an injustice if we don't start kicking off at some point in time.
3 In approximately 120 days we are going to start getting money in
4 the Permanent Fund. For example, what are we going to do with
5 that money? Who is going to manage it? If we don't have a
6 structure at least established by then, we are not going to be
7 able to answer that question. Are we by default going to let
8 the Division of Treasury manage it in the money markets? Are we
9 going, by default, allow some bankers in Alaska to manage it?
10 Are we going to allow the State Legislature to meet once every
11 Friday and decide whether or not to buy or sell some fixed income
12 security and whether or not to buy or sell some mortgages in the
13 State? Are we going to have to sell some money or buy some,
14 you know, as a result of our lack of decision. I submit to you
15 that gets to be a fairly costly undertaking. We have got to
16 address structural organization. It would be desirable to
17 answer every question you could ever think of but it gets
18 costly the further down you go.

19 MR. LeRESCHE: I just want to repeat something that
20 we said before but we don't seem to follow up on. Jim is right,
21 some suggestions have been made that the Legislature certainly
22 has to deal with this. But even our expert witnesses and
23 consultants say the structure will vary according to the
24 objectives we set forth. This group hasn't set specific
25 objectives for the Permanent Fund yet and, therefore, it is

1 premature to discuss specifics about the structure. That's
2 about as simple as I can say it.

3 MR. GALLAGHER: I would like, Mr. LeResche, to take
4 that question on. We've been selling that Permanent Fund now
5 for two years and we've been talking about goals and objectives.
6 In fact, what we have sold to the people quite often might be
7 called a smorgasbord. We've talked about savings accounts, we've
8 talked about these other things. At this point in time, to go
9 back and say, "People, what we have in mind now is either only
10 economic development". At this point in time say to a certain
11 constituency, "We lied to you. We're only going to do this
12 sort of thing".

13 MR. LeRESCHÉ: Let's just say what it is we want.
14 Four alternatives, like Mrs. Fleischer says. Let's write them
15 down and say, this structure fits this objective. We just don't
16 seem to be able to grab hold of that although we all seem to
17 agree that it is necessary.

18 MR. RHODE: Mr. Chairman, in discussions at the staff
19 level with Mr. Edenso, the Deputy Commissioner, and others, just
20 exactly what Mrs. Fleischer urges is what we hope to do in the
21 next step of assignments but that is subject to the sense of the
22 Committee. It is quite clear to me that the Legislature is not
23 going to recommend that the Fund be turned over entirely to
24 construct buildings at the University of Alaska. We're not
25 going to have a Texas permanent fund. There are three major

1 areas of activity for the Fund, or as were demarcated in a
2 publication by the Department of Revenue and given here at the
3 last meeting. Given those broad goals, we expect this
4 Committee to state its recommendations and preferences, but also
5 offer alternatives to the Legislature. I hope this would be the
6 feeling here that we don't know exactly that we are going to
7 favor aluminum plants as opposed to apartment co-operatives in
8 order to proceed.

9 MR. LeRESCHÉ: I am talking at the level of savings
10 account, direct social objectives, maximum return on investment,
11 industrial diversification. You choose a different mix or those
12 or you choose one or the other, you have a different management
13 structure. So let's lay them out.

14 MR. RHODE: It can be done so let's ---

15 MR. LeRESCHÉ: This gentleman is in the unfortunate
16 position of saying what structure fits a certain type of
17 objective.

18 MR. RHODE: As a special background, Price Waterhouse
19 was in the area of development loans. You're bringing up
20 exclusively savings account. They have expert advice on money
21 markets and things like that. But it can be laid out and I am
22 just suggesting that it be. Maybe I'm not quick enough to
23 realize the things that are implicit.

24 MR. EDENSO: We do have a problem and that problem is,
25 without a goal, without an objective, we can't in fact look at

1 some reasonable approaches to management and structure. We are
2 faced with a very critical time factor. In 120 days or less,
3 115 days approximately we are going to start receiving funds
4 into the Permanent Fund. We need to have something before the
5 legislative body for their consideration. I do not believe it
6 is possible, given the current level of resources, both
7 monetary and human, to establish the goals and objectives of the
8 Permanent Fund. I just don't believe that is possible.

9 Another major question is, what do we do with the
10 income. It's not that we haven't thought of it, we have. We
11 have tried to take the most reasonable approach possible in
12 looking at the major problem areas we are confronted with. And
13 I am sure that as we go along we are going to find that different
14 structures are going to fit very neatly with different kinds of
15 objectives, but we can't afford to ignore what is in front of us.

16 MR. LOVE: In response to Jim's question, frankly I'm
17 at the point where I feel -- in a position to just make a
18 motion that we recommend the money just be placed in the
19 financial markets initially until we can do the work necessary to
20 develop actual goals and objectives for social programs, and
21 I think it is premature for us to get involved ---

22 MR. GALLAGHER: You are talking about strategy, not
23 goals and objectives ---

24 MR. LOVE: Without getting into too much controversy,
25 I mean in terms of semantics and stuff, let me just say that I

1 think we are going to end up putting the money in conventional
2 money markets for a period of time until a lot of the planning
3 and work with the public and with the Legislature, until we begin
4 to have some of this data that I talked about earlier and it
5 becomes available. I think that is what we are going to
6 initially start with.

7 MR. GALLAGHER: Except the basic goals and objectives,
8 economic, maybe diversifications, community development and
9 savings account. Then you're talking about strategies, as to
10 how to do those things. Strategies are things that will change
11 from time to time as the economy changes.

12 MR. LOVE: I don't want to get into a big argument
13 about goals and objectives because I think there is confusion
14 about what those words mean. I can agree with you and still say
15 that, in my opinion, I think what we are really coming down to --
16 We're just going to take the total amount of money in the
17 Permanent Fund, the first half year is not going to be all that
18 significant, as I understand, particularly in comparison with
19 all the other State's revenue.

20 MR. GALLAGHER: 90 million isn't significant.

21 MR. LOVE: That's about the size, isn't it, of the VA
22 loan program? What I am wondering, isn't that what we are
23 really talking about, at least initially when the money first
24 comes on. Realistically, we're not going to have any other
25 choice other than to put that money in conventional money markets.

1 MR. GALLAGHER: Yes, you do. You have a choice, you
2 can keep up with the Veterans Loan Program ---

3 MR. WOHLSFORTH: If you please, stop the colloquy. Mr.
4 Gruening is next.

5 MR. GRUENING: I appreciate Jim's comment that he
6 wants a work product out but I think the reason we need it out isn't
7 something horrendous is going to happen if elaborate structure
8 isn't established the first part of the next Legislature. I
9 think the Legislature might address itself to some kind of
10 temporary administration of it. What Sterling is suggesting
11 that maybe you just buy current investments, but that is something
12 the Legislature would have to consider and may not think that is
13 such a great idea. They may wish to have that money as it is
14 accumulating, before they establish an elaborate structure or any
15 kind of structure on a permanent basis, authorize some kind of
16 temporary administration, maybe, as any other surplus fund.
17 Of course, that would give you the authority probably to buy
18 those loans. But that is something you might consider whether
19 you might give the Legislature a recommendation on a temporary
20 basis. I don't think we have to come up with the structure that
21 is going to exist for the next 10 years.

22 MR. GALLAGHER: I really can't conceive of us, Clark,
23 going back to the voters and saying we are not going to do any
24 community development, we're not going to do any housing ---

25 MR. GRUENING: I agree with you on that. But I think

1 Lanie is absolutely right, we do have to outline some goals and
2 say these are the structures that will probably be more
3 appropriate for those goals. If you have a combination, you
4 might amalgamate some kind of thing. I think there is time for
5 that. If we come up with a structure that we are not exactly
6 happy with, it doesn't necessarily have to be the one that is
7 going to exist for the next 10 years.

8 MR. GALLAGHER: I don't see, if you make the decision
9 you are going to invest in housing, how the structure is going
10 to change.

11 MR. GRUENING: Let's say that then, but let's get into
12 it.

13 MR. WOHLSFORTH: If we do have these back and forth
14 colloquys, we have just got to keep them short. It isn't fair
15 to the other members. Everyone is itching to say something.
16 I am not blaming anybody, but please don't make my job any
17 harder. Who had their hand up next to speak?

18 MR. EDENSO: Thank you, Mr. Chairman. I don't believe
19 that this meeting was intended to come out with something that
20 would be our recommendation to the Legislature for a structure
21 and organization. I think it is a first effort at considering
22 various structures that are available and really getting down and
23 having some meaningful dialogue in trying to tear them apart and
24 put them back together, are the circumstances we are confronted
25 with. And I really think that, although this may not seem

1 constructive, this is constructive. What we are all attempting
2 to do is put something together. And for all practical purposes,
3 I think talking about goals and objectives is really a good
4 thing and should happen. The question in front of us is, are
5 we going to have some kind of structural organization at least
6 identified. The various ones that have been put before us,
7 from what I could see, none of us are really all that familiar
8 with to be able to look at them and talk about it. White Weld
9 had to come here and explain the Heritage Fund, which you all had
10 at the second meeting.

11 MR. GRUENING: I am not suggesting we debate the
12 merits of the savings account aspect as opposed to another thing,
13 that is not what I am saying. I'm saying let's take that and
14 see if there are any differences that should exist in the
15 structure to administer that kind of policy.

16 MR. GALLAGHER: That is what I want to do in this
17 hour, talk about -- if you have a savings account objective,
18 what are the differences in management structure that you might
19 desire. Or if you want to have a smorgasbord, what -- or if
20 you want to do all three of them -- what are the institutional
21 things that you want to have in it.

22 MR. GRUENING: And along with that, what structure
23 might you consider as an interim structure until we think we've
24 really got a handle on it.

25 MR. FERGUSON: I'd go along with the board of trustees

1 7 members appointed by the governor and confirmed by the
2 Legislature to take care of the administration of the
3 investments in the Permanent Fund for "X" amount of years. I
4 feel right now, without knowing all the alternatives available
5 whether we have diversification or whatever. We're not going to
6 be able to do that here or in the next six months or a year. I
7 think what we are going to do is make recommendations to the
8 Legislature and the Legislature will have its ideas. I think
9 the first thing we have to do is at least recommend that we have
10 a structure set up to administer the investments of the funds
11 as they come in until we actually see how much money we have.
12 It's easy to say we're going to have a billion dollars in there
13 in three years, but until we see that it is awfully hard to
14 determine how to utilize the funds.

15 MR. GALLAGHER: Let me talk for a second about what I
16 would like to accomplish by this session and what I would like,
17 maybe, a group to accomplish by the next session or the
18 following session.

19 I can see what I would like to accomplish by this
20 session is come up with a management structure. If we agree
21 that the three goals are savings account, community development
22 and economic diversification, come up with a management
23 structure at the next session. That we spend the interim between
24 that session and the following thinking about the strategies as
25 to how you accomplish those things. In those areas we need a

1 whole lot of sector analysis on, let's say the housing. What
2 are some of the institutional things that we have got to go
3 through the housing, where are the housing needs in the State.
4 If you want to talk about fisheries, during the interim, the
5 Legislature has hearings on how you affect a sector called
6 fisheries. In the following session, when we have 200 million
7 dollars probably in the Permanent Fund, then we have those
8 policies established. The Legislature has then had two years to
9 work on the problem and at that point in time, you can start
10 accomplishing something.

11 MR. FERGUSON: If I may respond to that, regardless of
12 what structure you set up, you're not going to be able to reach
13 all the people. You take ---

14 MR. GALLAGHER: It will help the Legislature in doing
15 the sector analysis that will be necessary for the following
16 year.

17 MR. FERGUSON: You take the debt on bonds, general
18 revenue bonds, I think that is one way. Although it still doesn't
19 reach the maximum amount of good for the whole State. You take
20 the airport bond that just passed, is basically for the rural
21 areas. You take the University of Alaska basically for the
22 urban centers. So you can't reach all the people. You take tax
23 rebates, that's only going to reach the taxpayers.

24 MR. GALLAGHER: I'm saying that what reaches the
25 people is what you do with the Fund. It's the strategy once

1 you have the structure. Once you have the structure, the
2 Legislature then spends the next in-term years developing
3 strategy as to how do you help the people.

4 MR. FERGUSON: May I make one final comment. I think
5 the Committee is wandering away from the subject I presented, but
6 I think there was a purpose in having asked us to present a
7 proposed structure for this type of -- strictly development
8 banking fund. This probably represents the most complex of all
9 the things you might do. I think this was part of the dialogue
10 with which you attempted to begin. But let's start with the most
11 complex and then we can work back to something less.

12 MR. RHODE: Representative Malone will be here later
13 but he always expected that a temporary statute would be
14 necessary to provide for the routine investment of whatever
15 revenues are reaching the Fund. What he is hoping for from this
16 Committee are recommendations and alternatives on structuring
17 the fund given a set of goals, exactly as you have been discussing
18 here. And that does not have to be done under a crisis footing.
19 As Representative Gruening said, this may well be a process that
20 involves the session of 1978 or beyond that.

21 MR. GALLAGHER: Jim, are you contemplating not even
22 addressing the management structure until you've got two or
23 three hundred million dollars in size?

24 MR. RHODE: No.

25 MR. GALLAGHER: Because it's the sector analysis, the

1 strategy, where all the analysis has to go in.

2 MR. RHODE: This Committee ought to be able by session
3 time or in the early months of the session to be able to assess
4 or make some recommendations along the lines, if there is to be
5 any development activity, for instance, you ought, or ought not,
6 to have a governing board insulated from those who make loan
7 appraisals and so forth. Or, if this Fund is to make any kind
8 of community loans, then you ought to consider the followings:
9 1, 2, 3. And offer its assessment together with its professional
10 advice. And also there is considerable experience here in the
11 banking -- experience, I will have to say, more considerable
12 than in the Legislature. That is why Representative Malone,
13 particularly, wants to hear from this Committee. But it is not
14 to prejudge it for the Committee or not to prejudge it from the
15 Legislature. The Legislature may well be able to resolve a lot
16 of these organizational matters by the first session, but hold
17 that until the goals and so forth have been settled and combined
18 with the enabling act. I wouldn't begin to predict that.

19 MR. GALLAGHER: Do you mean goals or strategies?

20 MR. RHODE: As you like.

21 MR. LOVE: I would like to address this to Price
22 Waterhouse. If we are really talking about not embarking on --
23 just accept this as hypothetical and not the consensus of the
24 group -- what we are really talking about in the first year
25 would be a conservative approach on how to invest these funds.

1 Probably just putting the money in a conventional money market.
2 Looking at perhaps a more diversified approach in the second
3 year after a lot more information has been brought in and more
4 people have had more time to examine all these things. It
5 probably would make sense then to recommend a 7-member board of
6 directors and a 32-member citizens board right off the bat.

7 MR. FEGIS: No, it wouldn't make sense to provide for
8 that.

9 MR. LOVE: I am looking for you to think in terms of
10 making a recommendation to us. One of the alternative structures
11 would be to simply perform a function of very conservative
12 investments the first year. And, secondly, maybe provide some
13 information and advice, either for the Legislature or this
14 Committee, or the administration during that first period of
15 time, planning for the second year. And I would like to know
16 how that structure would differ from the structure that is in
17 this paper right here.

18 MR. FEGIS: I have not given that question a lot of
19 thought. But my reaction is that probably the citizens board
20 would not be required at all although you might want to have it
21 provided for at a future point. I think you specifically would
22 want to provide for it at least in this concept, you want the
23 citizens to be able to input and say we do not want it to be a
24 savings account. That may be one thing you would get out of the
25 citizens board one year hence. So I think you would want to

1 provide that it could meet within a given period of time,
2 probably on an interim basis.

3 MR. LOVE: I'm not quite sure -- what structure did
4 you say we should have if it is to undertake this job that I
5 have outlined for the first year?

6 MR. FEGIS: I think I would like to think about that
7 question a little further. I would say that at the outset, at
8 least, there wouldn't be a necessity for it.

9 MR. LOVE: I certainly think it is among the range of
10 alternatives we're going to have to present to the Legislature.

11 MR. GALLAGHER: I think there is a need to come at the
12 next session with something to start working on strategies.

13 MR. LOVE: I included that in the ---

14 MR. GALLAGHER: I am not necessarily disagreeing with
15 you. I think there has got to be some sort of structure in
16 order to do strategy analysis -- planning, on how you help the
17 various structures. So when you come back to the next session,
18 at least you can start to accomplish something.

19 MR. LOVE: I think the definite planning ought to start
20 now and be in high gear for the next few years. I think by the
21 time you get going ---

22 MR. GALLAGHER: The strategy will take the longest
23 time to put together.

24 MR. LOVE: Maybe that is one the major recommendations
25 we can make. The initial management structure for the Permanent

1 Fund have a very large mandate toward doing certain types of
2 planning jobs, certain types of economic planning jobs. The
3 types of analysis that we think are very important. Maybe that
4 is more important a job in the first year than making loans.

5 MR. GALLAGHER: I agree. I think the sector analysis
6 of each sector is how to help it along with public funds by the
7 Legislature would be very necessary. In order to get anything
8 accomplished in the second year Legislature.

9 MR. CRAWFORD: There was a suggestion about an hour
10 ago that we look at the options and maybe thrash those out and
11 I, for once, would kind of like to get on with that.

12 MR. BARNES: I think I would agree with Mr. Love's
13 earlier suggestion that it is almost time for a motion to
14 promote some kind of progress in this Committee. And I would
15 suggest that I don't feel any sense of urgency that some members
16 do to come out with particularly anything except to recommend
17 that the Legislature enact temporary legislation to invest the
18 funds, which are not going to be very significant in conventional
19 money market investments to give us the time. Then, if they
20 want to -- for us to flush out all the options, which they can do
21 themselves, then let's do it. I think we should decide that there
22 should be a suggestion for them to make temporary legislation
23 and then, if they want to give us their goals and objectives,
24 then we can certainly work out the alternatives for them.

25 MR. GRUENING: I think that is a good suggestion, but

1 I think we could go farther. If we make a motion that we all go
2 home -- I would concur with that motion but we might suggest to
3 the Legislature something they could consider in terms of
4 structure on a more permanent basis. I think that is what Jim
5 would like to see us do.

6 MR. EDENSO: Again, this is a first cut at looking at
7 a structure and organizational basis.

8 MR. GALLAGHER: Let's do what I want to do in this
9 hour. One of the things I would like to accomplish in this
10 hour is, if we want to talk about savings account objectives,
11 what sort of management structure the Committee would see. To
12 me, there are two obvious things. One, you can either leave it
13 in the Department of Revenue -- and, if your goal is only
14 savings account, then leave it in the Department of Revenue and
15 have them manage it just like any other fund. That's the most
16 inexpensive. Or, the other alternative is to have some sort of
17 small board overview that activity but still have it accountable
18 to one manager. If that is your goal, the savings account, what
19 does the Committee think of those two alternatives?

20 MR. WOHLSFORTH: I can give my view. I don't think it
21 makes any sense at all to have a board, an operational board,
22 and it has been proven state after state that it is a pain in the
23 neck. You need one manager who should be the State Treasurer,
24 or in this case, the Department of Revenue. Also, bear in mind
25 the State lost a lot of money in 1970. And, again, I am agreeing

1 with what someone said here. By not getting into the investment
2 act for the General Fund until June 15, the money came in, as you
3 know, the prior September. In the meantime, the State could only
4 invest in direct U. S. Government obligations, it couldn't even
5 invest in agencies. So we had over 900 million dollars at that
6 time at which we were losing an increment of anywhere from 1-1/2
7 percent to whatever the differential was because the Legislature
8 had it in mind that they had to deal with the whole problem
9 rather than simply segments to get us a reasonable money market
10 instrument statute. I would hope that would be avoided this
11 time, that there could be an investment statute on the books by
12 the time money is in the fund to permit a proper rate of money
13 market instruments.

14 MR. LOVE: I would like to offer a motion that we
15 recommend to the Legislature that in the first year that the
16 Permanent Fund be managed by the Commissioner of Revenue under
17 existing statutes ---

18 MR. GALLAGHER: That is not what I want accomplished
19 this hour.

20 MR. FREER: Maybe we've reached that same point that
21 Abraham Lincoln did when he came to this little group of
22 soldiers at the fence and he couldn't figure out what command
23 to give them to get them on the other side of the fence. Maybe
24 it's time we fall out and reassemble on the other side of the
25 fence.

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MR. WOHLSFORTH: Are you suggesting a break?

OFF THE RECORD

ON THE RECORD

MR. WOHLSFORTH: Take your seats, please. Yes, Mr. Gruening.

MR. GRUENING: I have a motion to make. I move that the Committee direct Commissioner Gallagher to draft for consideration at the next scheduled meeting of this Committee a temporary statute which authorizes management of the Permanent Fund monies in a manner similar to the Department of Revenue's present administration of surplus funds.

MR. WOHLSFORTH: Is there a second to the motion?

MR. LOVE: I'll second it.

MR. LOGSDON: May I make an amendment that it be a statute and not a temporary statute?

MR. GRUENING: I concur.

MR. GALLAGHER: I have a question. Does that mean some sort of sunset provision in it like this one will self-destruct after one year?

MR. GRUENING: Make this discussion on the motion. Presently there exists a set of statutes which deal with the Commissioner's authority to invest surplus funds. Now, the Permanent Fund will have to have that kind of statutory authorization from its establish forever. Because there always be funds that are not immediately invested in one of the goals,

1 whatever they will be. They are funds that are coming in.
2 They are funds that haven't been administered for purposes of
3 the goal. So you always have to have that kind of statutory
4 authority. So, in a sense, maybe this could be a statute that
5 exists for the life of the Permanent Fund. On the other hand,
6 I like the suggestion of a sunset provision. It may be in the
7 structure. You might consider that, but I think that maybe right
8 now what we are concerned with is strictly how are we going to
9 administer this fund until we really get the structure for the
10 goals more firmly established.

11 MR. GALLAGH: Let me say what I see. I see the
12 Department of Revenue under this and see if we agree. Investing,
13 during next fall, monies and meanwhile the Legislature will pass
14 a statute creating the structure. During next fall they will
15 start creating the management structure that starts doing some
16 of the strategy work as to how to help various sectors. And
17 then at the end of the following session you will have
18 implementary legislation as to how you implement various
19 strategies. Am I clear?

20 MR. GRUENING: I'm not entirely sure what you're saying.
21 I'm saying that this particular recommendation, the draft would
22 not create any instruction that doesn't exist now. It's just
23 authorizing the administration of funds that come in under some
24 kind of arrangement. We may not agree as to how similar it
25 should be to the present statutes dealing with surplus funds, but

1 we would like to look at a draft, that's all.

2 MR. GALLAGHER: I don't want this to be the end-all of
3 things that we do.

4 MR. GRUENING: No.

5 DR. LOGSDON: I might suggest that this be a clause in
6 the statute permitting the Commissioner to invest these funds,
7 with a structure that was established in the future. To provide
8 funds to this as established by the Legislature.

9 MR. GALLAGHER: I think when you revise in the
10 following session under a strategy bill, that will be part of it.
11 And at that time the Commissioner of Revenue will phase out of it,
12 which I think he will more than likely do.

13 MS. FLEISCHER: What I wanted to say about the sunset
14 clause, which I understand gives the people a chance to reaffirm
15 things on a periodic basis. So perhaps what we could do is see
16 that the sunset clause is in the enabling legislation itself but
17 it doesn't have to be in this first statute.

18 MR. GRUENING: Is that an amendment?

19 MS. FLEISCHER: No.

20 MR. GRUENING: The constitutional amendment itself
21 establishes the fund. There is nothing we have to do further to
22 establish the fund, it is established. Money is going to
23 accumulate as of an effective date of 120 days. Actually, the
24 money doesn't start to accumular until the effective date which
25 is 120 days.

1 MR. GALLAGHER: Certification date.

2 MR. GRUENING: Certification. So the money isn't
3 accumulating now, it won't be accumulating until another 120
4 days, whenever they certify this last election. What we are
5 talking about is a recommendation from this Committee, after
6 Sterling drafts a suggested piece of legislation which would
7 authorize somebody to handle those funds in some manner, a very
8 conservative manner. They're not going to make any long term
9 investments, that is the sense of my motion.

10 MR. MOTLEY: Mr. Gruening, what do you visualize as
11 far as the objectives of the Commissioner of Revenue? Can he
12 invest this thing in equities and can he invest this thing in
13 just savings accounts, can he invest it to deposits to banks?
14 Can he do all these things?

15 MR. GALLAGHER: What he is saying is for me to come
16 back with a recommendation.

17 MR. GRUENING: I am not suggesting any of that.
18 Obviously, not in dams or a lot of things that have been
19 discussed here, but something to conserve the principal. You
20 can't just put it in a cache or put it in a piggy bank.
21 Probably in CD's. My intention would be something -- CD's,
22 something very modest like that, in Veterans loans. But I want
23 to see what he comes back with and we can discuss it at that
24 point.

25 MR. LOVE: I am speaking for the motion so we can get

1 a motion on record so we can progress fast. This is a comment
2 to the Commissioner, I would be hopeful that it would be a
3 structure that would provide a somewhat liquid investment of the
4 fund.

5 MR. GALLAGHER: If there is something -- and things
6 don't come on stream and I'd bet into some sort of box. Of
7 course, there isn't that much money in the fund.

8 MR. WOHLSFORTH: Is there any more discussion on the
9 motion? The question has been called. The motion, as I took
10 it, is that it is the direction of the Commissioner of Revenue
11 to draw up a statute for presentation to the next meeting,
12 which would authorize him to invest the Permanent Fund in a
13 manner similar to other State funds. And included in the motion
14 was some provision, some time limitation on that authority.
15 Is that correct or not?

16 MR. GRUENING: I would use the language, authorizes
17 management, although it means investment. I think the public
18 needs to know the distinction between the kind of investments
19 the Fund will get into in the future and the need to manage the
20 Fund on a surplus fund. I don't want them to think we're
21 drafting a statute dealing with, authorizing him to make
22 investments at this point. It is an investment but not the kind
23 of investment people are envisioning.

24 MR. WOHLSFORTH: Money market investments.

25 MR. GALLAGHER: I want it very obvious that it is a

1 temporary thing.

2 MR. GRUENING: Right. In order to manage, you've got
3 to invest but I think the language "authorizing management" of
4 the Permanent Fund.

5 MR. LeRESCHÉ: I thought your original motion said
6 interim management.

7 MR. GRUENING: Somebody objected to that, but if you
8 want to make another amendment. I don't really care, one way or
9 the other. Every statute is temporary in the sense that it can
10 be repealed. You could put a self-destruct date on it which
11 would make the Legislature consider whether -- if it does adopt
12 it, whether it wants to continue it.

13 MR. GALLAGHER: The other assumption that underlies
14 the whole thing is we are going to work on having a structure
15 next year. I want that clear to everyone out there in the
16 world too. We can't put that in the bill, but we are just
17 talking about general understandings.

18 MS. FLEISCHER: Could we have a reading on the motion?

19 MR. GRUENING: The motion is the Committee direct
20 Sterling Gallagher to draft for consideration at the next
21 scheduled meeting of this Committee the statute which authorizes
22 management of Permanent Fund monies in a manner similar to the
23 Department of Revenue's present administration of surplus funds.

24 MR. WOHLSFORTH: Are you ready for the question? All
25 in favor say aye. Opposed? Motion carries.

1 MR. WOHLSFORTH: We have accomplished only a small
2 part of the task.

3 MR. GALLAGHER: Let's talk about the time with the
4 Committee. I have to have a report to the governor on Monday
5 having to do with a totally unrelated subject and that is going
6 to take me about three hours to write. I need some time, that
7 report has to be typed all day Sunday and I have to hire a
8 Kelly Girl and things like that to be ready for a Monday morning
9 meeting. My time limits are getting short. I would like to go
10 through maybe some sort of a drill -- not a drill, something
11 like you suggested, Bob LeResche, and put up maybe a savings
12 account or maybe the four objectives up on the board and talk
13 about just management structures overall and see how the
14 Committee reacts to them.

15 MS. FLEISCHER: You mean right now.

16 MR. GALLAGHER: Yes, or do we have time to do that.

17 MR. WOHLSFORTH: How long can you meet with us?

18 MR. GALLAGHER: I can probably meet for another hour
19 and a half.

20 MR. WOHLSFORTH: That would be then basically our
21 agenda for the rest of the day so far as your involvement is
22 concerned.

23 MR. LOVE: I would like to hear if there are alternative
24 ideas on the ways to do management. Part of my inquiry is to
25 find out if other members of the Committee have other ideas.

1 MR. GALLAGHER: I would like to do some freelancing.
2 Mainly what I want to do is have a freelance, if we talk about
3 these goals -- structures.

4 MR. LOVE: One idea that I think we are going to have
5 to deal with sometime and that is -- if there is going to be a
6 movement to regionalize decision making or something like that --
7 I'm not convinced that is best idea but I think we should at
8 least look at different models -- maybe not having a centralized
9 board, maybe having different communities or different segments
10 of the State being able to make different choices. Just like
11 the Regional Corporations are taking a much different direction
12 in terms of funds and maybe splitting the thing up may be an
13 alternative we ought to look at as opposed to a centralized fund.

14 MR. GALLAGHER: Before we go jumping off into
15 community development, why don't put put the four different
16 things that we have been talking about: Savings account.
17 Economic diversification. Community Development. And then
18 maybe title a third one, Smorgasbord.

19 Let's talk about the savings account area. The
20 Commissioner of Revenue can invest it under some sort of surplus,
21 or you could have a separate institution do it. Let me give you
22 a run at this one, just my personal feelings on this one. Doing
23 savings account investments is a very technical thing. You
24 don't need a whole lot of board input. That is what we have
25 presently -- the State Investment Advisory over the year -- kind

1 of a trophy, it didn't have any real function because the only
2 thing the Commission of Revenue could invest in were money
3 market instruments. When we got the 900 million everyone thought
4 about doing development and community loans but the crush of the
5 budget prevented that happening. So the original purpose of
6 the State Investment Advisory, it just kind of withered away
7 for two or three years there because there was just nothing really
8 to do. That's why, if you're going to have a goal of savings
9 account, at the most you have -- maybe you could set up a
10 separate fund and have a small board and that's the extent of it.
11 Does anyone see any difference in the management structure? You
12 can either do it through the Treasury and have an Advisory Board
13 or have a full board with a director and two or three people to
14 do accounting.

15 MR. LOVE: I think you can really decide the purpose of
16 the Fund is a saving account purpose but you can still get
17 involved in quite a bit of social loans in the State that are
18 income producing. You may make a decision, for example, that
19 the money markets, which are not perfect or not adequate, are
20 serving some very profitable and sound investments within the
21 State of Alaska. Mortgage loans and areas outside of
22 conventional neighborhoods.

23 MR. GALLAGHER: Are you suggesting something like they
24 do in the retirement fund, invest in the highest and best return.
25 I do invest in mortgages.

1 MR. LOVE: You may have fairly elaborate social types
2 of loans being made that still gain, you know, right up there in
3 highest and best returns. In markets that are not the
4 conventional money market, simply because the money markets
5 aren't perfect. What I am saying is it may be necessary in a
6 savings account approach to have some type of fairly active
7 input in terms of social goals.

8 MS. FLEISCHER: You mean socially oriented decisions
9 about where to invest the money.

10 MR. LOVE: Another thing, if you look at savings
11 accounts, you may decide for a savings account to be super
12 effective, you may decide for a savings account to have an impact
13 on future generations that you may want to slow down the rate of
14 growth by not putting the earnings back of the general fund
15 back into the Permanent Fund because you may decide that the
16 savings account may not be very effective if it is very small
17 related to overall State expenditures and revenue maybe 20 years
18 from now when the Permanent Fund disappears. To me the savings
19 account is a real objective goal and it may have broader policy
20 implications in terms of investment strategy, and for that
21 reason you may not want to invest it in the State, you may want
22 to invest it out of State.

23 MR. WOHLSFORTH: I think the income must go to the
24 General Fund.

25 MR. GALLAGHER: No.

1 MR. LOVE: If it's a true savings account, then the
2 income should not go to today's citizens, the income should
3 definitely go to future generations. So I think it would have
4 to be, if it is a true savings account, reinvested.

5 MR. WOHLSFORTH: I don't know about that. You've
6 said an awful lot in the last couple of minutes. You said a
7 savings account might have social objectives and then you sort
8 of transitioned into such things as mortgage investment.
9 Mortgage investment which has been done through the retirement
10 fund has a perfectly legitimate nonsocial context. There is
11 nothing socially oriented about buying a 10-1/2 percent good
12 Alaska mortgage.

13 MR. LOVE: It is serving markets that haven't
14 otherwise been served.

15 MR. WOHLSFORTH: Every investment has a social content,
16 if you're talking about even investing in General Motors stock
17 or whatever, U. S. Treasury. I think you get to a pretty
18 attenuated use of the word social there. I don't necessarily
19 accept the proposition that any savings account has to have its
20 interest reinvested. Equally, you can have the income and the
21 principal is there for future generations. I do accept the
22 basic proposition though that may make some sense that even with
23 a savings account it is good to have a board to ping-pong your
24 work against at least twice a year. That is always good for a
25 manager.

1 MR. CRAWFORD: A couple of the options that have been
2 suggested here such as proceeds of the savings account concept
3 going into the General Fund or proceeds going back to the
4 Permanent Fund for a specified period of time for growth fund.

5 DR. LOGSDON: What do you consider a savings account?

6 MR. GALLAGHER: In my mind we mean government
7 corporates and fixed income. You can also buy private
8 placements. You can also make CD's.

9 MR. EDENSO: Are we considering the different ways you
10 earn income in the savings account approach, or are we
11 considering some kind of a structure and organization for
12 managing the savings account approach?

13 MR. WOHLSFORTH: I think we're off on a mixture.

14 MR. EDENSO: Well, regardless, you have a pool of
15 money there and you have agreed to manage it somehow, you've got
16 to have some kind of management decision making process which
17 tells you investment A is better than investment B versus C, or
18 what have you. And if it's going to be into some kind of
19 developmental activity or some social goal, then you're going to
20 have a board or management structure that somewhat varies from a
21 pure investment banking function where you're making decisions
22 on money market instruments, whether fixed income, equity or
23 mortgage loans. It's a different kind of activity, a different
24 kind of decision making process. To try to get a board to agree
25 on one instrument over a specific period of time when you know

1 the money market is changing daily, you might never gain any
2 income opportunities. Under savings account then, we're talking
3 about a straight money market activity.

4 MR. LOVE: This is something I don't think has been
5 discussed. Let's say that your policy for the savings account
6 was partially to buy mortgages in Alaska because they are
7 considered good investments. So you went into the secondary
8 money market and you're buying notes from savings and loans with
9 commercial banks, is this the area where the Permanent Fund
10 should get involved like making decisions, here's a chance to
11 use the economic power of the State of Alaska to use these social
12 funds to reform institutions within the State. For instance,
13 say we will not buy mortgages from savings and loans if they use
14 the proxies because we don't think that's a democratic way for
15 that institution to function. I'm just using that as an example.
16 At some point if we decide, you know, whether or not it would be
17 the purpose of the Permanent Fund even if it was managed as a
18 savings account to get involved in using its economic power to
19 get other types of objectives out of different institutions within
20 the State. I don't know if you guys want to talk about that at
21 any point or not.

22 MR. GALLAGHER: The financial objectives you get out
23 of U. S. Government, when you invest in U. S. Government, are
24 you going to say, you know, get -- on your deficits?

25 MR. LOVE: You might not get anything out of there but

1 you might very well be able to affect the savings and loan
2 industry.

3 MR. GALLAGHER: When we're talking about savings
4 account, we're mainly talking about investment decisions that
5 arise outside -- it's a trust account and you look for the
6 highest rate of return. And that quite likely may not be in
7 Alaska.

8 MR. WOHLSFORTH: Let's accept the proposition that it
9 is possible the Legislature could indeed decide that they wanted
10 to reform financial institution practices in Alaska through the
11 use of the monies in the savings account. All right, we've
12 said it now let's go on to something else. I don't think it's a
13 realistic use of a savings trust account personally. Others
14 may think so.

15 MS FLEISCHER: Would that include mortgage investments,
16 secondary markets. As we heard yesterday, the savings and loan
17 sell their mortgages to these outside investors and whether
18 that is the kind of investment we would be making with this Fund
19 in the State. If it is, then could you also tie that to some
20 decision, for instance, to invest in home mortgages in the
21 villages.

22 MR. GALLAGHER: No, then that would become some sort of
23 developmental.

24 MS. FLEISCHER: If a decision is made that it does not
25 produce income, but experience shows that it is sometimes
income producing. That has been shown in Chicago in areas that

1 were redlined because the banks decided they were not income
2 producing but, in fact, when they went in there and did make
3 loans to those neighborhoods, they were very high income
4 producing loans, in fact higher than citywide. So my question
5 is, who is making the decisions as to whether ---

6 MR. GALLAGHER: That is an important structural
7 question.

8 MR. LOVE: It is an important one I think, who is going
9 to make the decision.

10 MR. GALLAGHER: The thing that is analagous to it the
11 pension fund. And we do try to fill the unfilled need in the
12 State. One of the things we try to fill is the 68 to 100,000
13 dollar market where there is no Outside investor for, and on
14 which we get outrageous rates of return. The major market that
15 we are filling with the pension fund is the 68,000 to 100,000
16 dollar market.

17 MS. FLEISCHER: There is a person staying at the house
18 now from Bethel and you can't get loans on houses in Bethel. Or
19 if you get the loan, you can't get insurance. Is that need
20 being met?

21 MR. EDENSO: Well, Lanie, you have to understand the
22 nature of the way land is sold and deeds in rural Alaska.
23 Sometimes you just can't get any kind of indication as to who
24 owns title to what. And you have the consideration of whether
25 or not you have adequate fire protection and whether or not you

1 can get insurance on your mortgage.

2 MS. FLEISCHER: Well, apparently they can't.

3 MR. GRUENING: Maybe what we are trying to get at
4 through the trust account if we do want to reform the practices
5 of banks, maybe it can be more directly done through a statute
6 which says you can't redline, or identifies redlining. Maybe
7 we're trying to do indirectly what we can better do through
8 another means, another vehicle. The other points, let's say
9 housing loans to Bethel, if the bank isn't making it -- maybe
10 that's what we're going to do under community loans. Have the
11 Permanent Fund make it directly out there. But I think we are
12 going to end up having everything under one category again.

13 MS. FLEISCHER: My question was, is this a good place
14 for it and your answer was probably not.

15 MR. GRUENING: Probably not, but we could list it.

16 MR. WOHLSFORTH: Is there any more discussion under
17 savings account.

18 MR. LeRESCHÉ: Could we pretty much establish the
19 principle that the savings account objective would require the
20 simplest of all the management structures? Is the board agreed
21 on that?

22 MR. WOHLSFORTH: Yes.

23 MR. CRAWFORD: Possibly under options there, we should
24 list the trust concept of managing for the highest return.

25 MR. GALLAGHER: That is one of the goals you have to

1 write up there, Jim.

2 MR. LOVE: I would like to at least look at the
3 structure of the Regional Native Corporations as an alternative
4 to that of a centralized system. We've got sort of an
5 analagous situation. If the Natives are managing for the
6 purposes of providing revenue and profits and mostly making
7 investments within the State of Alaska -- this is at least
8 something that I think should be analyzed in terms of alternatives.

9 MR. LeRESCHÉ: I don't understand which characteristics
10 of the Native Corporations he is talking about.

11 MR. LOVE: There are separate corporations representing
12 geographic areas of the State. Maybe the same thing could be
13 done with the Permanent Fund. I may not advocate that but I
14 certainly think we ought to at least consider that, particularly
15 since there is such an obvious model to study, you know, the
16 implementation of the land claims.

17 MR. EDENSO: I don't see the similarities between the
18 Permanent Fund and the Native Land Claims Settlement Act at all.
19 I don't think there is any degree of comparison. The one has a
20 completely different objective than the other. The Native Land
21 Claims Settlement Act was to satisfy what Congress recognized as
22 a just claim upon the State of Alaska and the U. S. Government.
23 The other is the Permanent Fund which distributes benefits from
24 a resource owned by all the residents of the State of Alaska.

25 MR. LOVE: What's the difference?

1 MR. EDENSO: The difference is the Native Land Claims
2 Settlement Act is mandated by law to provide in fee simple
3 title, mainly land distribution to the 12 Regional Corporations
4 and to provide monetary distribution to the 12 Regional
5 Corporations. It also identifies specifically who the
6 beneficiaries are under the Act.

7 MR. LOVE: The beneficiaries are the people of
8 Alaska, I think that is pretty clear.

9 MR. EDENSO: Who are the people of the State of
10 Alaska ten years from now.

11 DR. LOGSDON: There is one point that I think he is
12 trying to make here. Should the Fund be in the whole or should
13 it be subdivided in parts based on one thing or another. For
14 instance, we heard yesterday the possibility of subdividing the
15 Fund by specifying a certain percentage of it should go in
16 utilities, a special fund for utilities. I think what he is
17 saying is, should we subdivide or ---

18 MR. GALLAGHER: The question is, should it be
19 sectoral or regional.

20 MR. GRUENING: Maybe one of the points Jamie was getting
21 at is maybe democratizing the economic decisions by region. If
22 we're talking about development, shouldn't the people within a
23 given region decide what kind of development they want as
24 opposed to, let's say a central board which may be represented --
25 let's say Anchorage interest -- developing our Anchorage economy

1 is built on development on the outside. Maybe it might be
2 determined the region in which people would like to live
3 should have a say in the structure as to how they want it
4 developed.

5 MR. GALLAGHER: The other way, of course, is sectoral.
6 You have to do power development, you have one to do utility
7 development and one to do agricultural development.

8 MR. GRUENING: Decentralization of management is maybe
9 a better term. I think that is a basic question, whether we're
10 going to have a one management structure for development or
11 whether you decentralize.

12 MR. EDENSO: Decentralization decision making.

13 MR. LOVE: These are all various alternatives. It
14 could be completely an autonomous corporation. It could be
15 central management with regional decision making, development
16 for a particular area. It could be combinations of the two. It
17 could be completely autonomous Statewide thing that just did
18 everything at a State level. Maybe that's the most efficient
19 way to do everything.

20 MR. WOHLSFORTH: Does this all presuppose a central
21 governing board which interfaces with a regional development
22 corporation. Let's get back to a little logic there. There is a
23 Permanent Fund, not 12 or 14 permanent funds established by the
24 voters. Almost certainly, it seems to me, there has to be a
25 central -- some central governing body.

1 MR. LOVE: That could be a very simple function. An
2 executive director, divides up based on population, 13 or 16 or
3 10 ways.

4 MR. WOHLSPFORTH: I don't think myself that is what is in
5 contemplation.

6 MR. EDENSO: It seems to me, Mr. Chairman, we're not
7 talking about structure of organization, we're talking about
8 functions, developmental function, and trust savings account
9 function, community development loans. These are all different
10 kinds of investment policies and investment functions.

11 MR. LOVE: To give you an example, let's say Kachemak
12 Bay where the Statewide organization said we want to develop
13 this area, offshore oil development, that's really the best
14 thing to do, more jobs. The people of Kachemak Bay said we
15 want to develop the fisheries, we want to have hatcheries and
16 we want to have this and we want to have that. I see there
17 could be a conflict in terms of --- I'm just saying this as a
18 possibility, this may be a lousy example, but there could be
19 different ideas about what development is best for the area.

20 MR. LeRESCHÉ: I think you're talking about different
21 objectives for different areas rather than about different
22 management structures.

23 MR. LOVE: I think we should be openminded about all
24 possibilities. It may be that you would want maybe 6 or 12
25 different management structures competing against each other and

1 some maybe would do very good and some maybe very bad, but maybe
2 out of that -- maybe as a development approach, you'd learn more
3 about it maybe than having a central organization with nothing
4 to compare its success or failure against.

5 MR. WOHLSFORTH: Just one more time and then I'll quit.
6 There may be real merit in having regional authorities and they
7 may be closer to people and they will be competing, but
8 nevertheless it seems to me contemplated, unless I am absolutely
9 crazy, that we have some central agency of some kind that has
10 to allocate between agencies. Unless there is to be a 12-party
11 division of the fund right from the start among those agencies.
12 Would you accept that?

13 MR. LOVE: No, I wouldn't. I'm not saying I'm against
14 it ---

15 MR. WOHLSFORTH: I am not talking about what you like,
16 I'm talking about what the thing says.

17 MR. LOVE: I think that you could conceive that there
18 would be a very simple administrative function at the central
19 level that really was hardly anything ---

20 MR. GRUENING: What I had in mind -- I think you're
21 right, I think there has to be some central administration to
22 determine which region gets it. But the idea would originate
23 and be administered by a regional authority which may or may not
24 be part of the Permanent Fund. They won't have to be. They
25 could spring up on their own. But the concept would be the

1 Permanent Fund wouldn't take, say Outside investors who want to
2 move into a region, or develop, or promote -- they would be
3 dealing as say the World Bank is dealing with other authorities.
4 That was just one thought I threw out. I can't anticipate that
5 you would divide the Fund into 12 -- say if you were going to
6 go as a model the Regional Corporations -- say we'll have 12
7 funds. I don't know how you could divide the money in any way
8 that would meet the constitutional mandate.

9 MR. EDENSO: Mr. Chairman, I really have some difficulty
10 in understanding what Jamie is talking about, but it seem to me
11 what he is trying to do is -- an organizational idea or a pure
12 structural idea, what normally happens very efficiently in a
13 market. If somebody has an idea that maybe is going to make
14 money, they go to a bank, they find out if that idea has got
15 some merit, the bank either says yea or nay, and you go with it.
16 It sounds to me what Jamie is trying to do is create a whole
17 bunch of little things that you are going to have in a central
18 location anyway to satisfy some kind of structure. Is that my
19 understanding of what you are saying?

20 MR. GALLAGHER: Let's look at a management structure
21 of -- it's only a new development, what a management structure
22 is quite likely to be is a small highly technical staff.

23 MR. LOVE: Centralized, either regionalized or
24 centralized.

25 MR. GALLAGHER: Either way. You can have a small

1 technical staff. A staff that goes out and makes a whole lot of
2 little tiny loans or a staff that makes a series of very large
3 loans.

4 MR. LOVE: How do the Native corporations do it. As
5 I understand it, they are autonomous -- the money is divided up
6 among them and then they do out and do their thing. They make
7 their own investments, they make joint ventures when they want
8 to. Some of them invest in their own communities, some of them
9 invest in Anchorage.

10 MR. GRUENING: The money is divided according to the
11 Bill. It is complex -- based on population within the region.
12 I don't know where you would draw the line -- you might be able
13 to do it by statute, say so much money would go in this region --

14 MR. GALLAGHER: You mean make it on a per capita basis
15 of revenue sharing or something like that. Well, when you talk
16 about development loans -- let's say divide up a region -- a
17 development loan in the Aleutians, it might be a whole lot more
18 risky than a development loan in Anchorage.

19 MR. WOHLSFORTH: Certainly, the idea of a local
20 development corporation is a good one. I support that, it might
21 be a good intermediary for this kind of thing. But I can't see
22 that the amendment contemplates a division of the money by
23 regional sector so to that extent I don't think you can go much
24 farther than simply recognizing that we may interface with local
25 corporations.

1 MR. LOVE: The only reason I bring this up and I hope
2 in the future we can have some presentations on this. I would
3 like to learn from the Native Corporation's experience how they
4 manage their funds, what kind of investments have they made, with
5 what success or failure have they invested. I would hope at some
6 point we would have some info on that.

7 MR. EDENSO: Mr. Chairman, there is information on
8 that. It is published annually in each annual report from the
9 Native Corporations. And for all practical purposes they have
10 made their investments into construction activities and into
11 money market instruments.

12 MR. WOHLSFORTH: I think it is a good point and
13 certainly they are a model of somebody who has a lot of money
14 to invest in the last four or five years.

15 MR. LOVE: I don't want to be on the record as an
16 advocate for a decentralized system but I think it would be
17 wrong for us not to consider this in our options and to take a
18 look at some of the advantages of doing it this way and also the
19 experience of how it has already been done. If it has been a
20 bad experience, I would like to know why it was a bad
21 experience and in what areas does it feel it has had a good
22 experience. So that we can know that as we develop our own
23 structure.

24 MR. GRUENING: I have great difficulty in envisioning
25 how you could apportion as they have done in the Lands Claim

1 bill money by either region or population. If it were by
2 population, it would all go to Anchorage. I am trying to cope
3 with that. I don't even think we can talk about it in terms of
4 dividing it -- the money by region, but dividing the decision
5 making as to how the money is used within a region. I think we
6 are addressing a political question here. Maybe we don't want
7 to have one agency saying we're going to make a loan in the
8 Bethel area for this, no matter what you think. I think that's
9 what we are getting at.

10 MR. EDENSO: I think one of the things that was
11 addressed by centralization, decentralization concepts was the
12 idea submitted by Price Waterhouse and the recommendation for a
13 board that would be composed from all the various election
14 districts in the State. That would very definitely give you
15 input on a regionalized basis as to how you would structure and
16 possibly make decisions concerning either savings, development
17 or community development types of activity.

18 MR. WOHLSFORTH: Don't we have something we can put
19 up here?

20 MR. EDENSO: So far we haven't had anything to do with
21 structural organization.

22 MR. WOHLSFORTH: As Clark just said, divide the
23 decision making by regions and this raises the issue would there
24 be some sort of subsidiary governing board by regions or does
25 representation on the citizens board meet that problem?

1 Central and regional boards might be better than funds.

2 MR. LOVE: I like Clark's suggestion of saying that
3 we consider recommending that people in a given geographic
4 area have some say over the types of development investments in
5 their own communities. I think that sounds like something we
6 should really ---

7 MR. EDENSO: One of the problems I have is the way
8 Jim has been writing these up here, one thing versus another
9 thing. I think what we are doing that way is excluding one over
10 the other. We should just say centralized boards, decentralized
11 boards, etc.

12 MR. CRAWFORD: Under development, I think it would
13 also be appropriate to get into the management of it on an
14 administrative rule basis, whether or not the funds would go to
15 development of any of these at the highest return to the fund.

16 MR. GALLAGHER: Development doesn't necessarily mean
17 that. Maybe the highest economic return but not the highest ---

18 MR. LOVE: I think that's true, we've got to resolve
19 whether or not the development loans are going to be prudent or
20 best return, or what is the alternative criteria ---

21 MR. EDENSO: We can give it away. The point on that
22 it seems to me you at least have to earn some kind of income
23 whether it is 1 percent or 2 percent or 100 percent.

24 MR. GALLAGHER: You may be looking at the highest
25 economic returns, or you may -- but then you stray away from that

1 and decide to make it social -- tie in a social one. Say in a
2 rural area an economic diversification that doesn't really make
3 all that much sense. It employes lots of people ---

4 MR. LOVE: I think there is a difference between high
5 return to a return and a lower interest rate. And a third
6 category is marginal chance of return. That is a decision we
7 are going to have to decide whether or not we want to include
8 in the types of investments that won't pay off at all. That
9 could make the Permanent Fund less than permanent. If it does
10 pay off -- but if it doesn't pay off, at some point we are going
11 to have to develop some philosophy along that line.

12 MR. WOHLSFORTH: I would say that income producing,
13 you're not only going to get the income but you're going to get
14 the principal back too.

15 MR. LOVE: I think it's a threshold question.

16 MR. EDENSO: Mr. Chairman, under the decentralized
17 concept, would the decentralized board or organization, would
18 that be making decisions concerning an investment or a series
19 of investments or something of that nature. And, if so, how
20 would they indicate that to some kind of a centralized
21 organization which establishes a Permanent Fund. You obviously
22 don't have a dozen Permanent Funds, you only have one.

23 MR. GALLAGHER: Jim, there is one other third sort of
24 board that we did talk about. It wasn't regional, it was
25 sectoral.

1 MR. LOVE: Instead of boards for geographical areas,
2 boards for various types of development. You may want an
3 advisory board for petroleum development, mining. And you bring
4 in people with unique expertise versed in these various areas of
5 development that are more qualified to give advice in those
6 particular areas. I think that has a lot of merit.

7 DR. LOGSDON: The thing that scares me about that is
8 the only example I am able to put my finger on is the failure of
9 the development bank.

10 MR. LOVE: We are just showing alternatives here.
11 He is not saying that the loans would be diversified, he is just
12 saying an advisory board for something like that of particular
13 industries so that they could have a broad background.

14 MR. WOHLSFORTH: Sectoral advisory boards? I don't
15 know what that means but it sounds good.

16 MS. FLEISCHER: Another consideration if we did that,
17 we'd still have to have some way to protect the neighborhood,
18 even if the decision were made by an expert, it still could be a
19 bad decision for that village, that region, that area.

20 MR. GALLAGHER: It's a combination. It's a central
21 board with a combination of sectoral advisers. And under the
22 central board you go out and talk to the people and see if they
23 want it in that area.

24 MS. FLEISCHER: There could be a project developed
25 which would be absolutely devastating to that particular village

1 or region.

2 MR. GALLAGHER: There are two ways to do it, you can
3 put the decision making out there or do the hearing process out
4 there.

5 MR. MOTLEY: I would like to ask the board for a
6 comment. If you decentralized this and went into various regions,
7 let's assume, for example, a genuine need for electricity and a
8 particular individual in that particular region where the dam is
9 going to be constructed says I like to fish in that stream and
10 therefore I think this is really a disastrous thing so henceforth
11 let's say no to this particular area. Wouldn't this cause a lot
12 of problems in some of these larger development programs that
13 may be necessary for Alaska.

14 MS. FLEISCHER: Maybe the need is for energy, maybe
15 thermal energy is a better answer than a hydroelectric dam.

16 MR. EDENSO: I think, again, central boards is
17 descriptive of possibly more than one board.

18 MR. LOVE: We have the Price Waterhouse model which is
19 one model for development. Another approach I think might be to
20 just turn the development completely over to the Department of
21 Economic Development and just make it a cabinet position -- say
22 that that function of the Permanent Fund be managed by somebody
23 in the Cabinet. I think that is an alternative you might want
24 to consider.

25 MR. MOTLEY: Wouldn't that come under a great deal of

1 political pressure?

2 MR. LOVE: In terms of development loans I think that
3 might be good.

4 MR. MOTLEY: That means that the present governor or
5 whoever designs that Cabinet then can pretty much select in which
6 direction that the Permanent Fund's monies are going to go.

7 MR. LOVE: This may or may not be all the funds that
8 are in the Permanent Fund. It may be that a certain percentage
9 is in savings account, a certain percentage in development.

10 MS. FLEISCHER: The question then is, do you want it
11 subject to the pressure of the population, maybe you do want
12 politics to have something to say about it.

13 MR. LOVE: Maybe you just want a commissioner who is a
14 member of the governor's cabinet subject to confirmation or
15 rejection by the Legislature.

16 MR. GALLAGHER: There is also one other thing, you
17 could make it all in CD's and put it all in banks and let them
18 make all the decisions.

19 MR. LOVE: Let them make all the decisions, that is
20 something they have expressed a willingness to do.

21 MR. GALLAGHER: I didn't hear them say that.

22 OFF THE RECORD

23 ON THE RECORD

24 MR. LOVE: Mr. Meekins approached me yesterday about
25 the Legislature making up the board of the Permanent Fund. I

1 know that there are many legislators who think that is a good
2 idea. I guess that is not too surprising.

3 MR. GALLAGHER: They don't have the power under the
4 Constitution to be able to do it though.

5 MR. LOVE: Maybe they were given that power by the
6 Constitutional amendment.

7 MR. GALLAGHER: They weren't given any executive
8 power, all they were given was policy making power.

9 MR. EDENSO: The question then comes, can a legislator
10 also be on the board. Then you've got a board that is 60
11 members strong, not 40.

12 MR. RHODE: I have had discussions with legislators
13 on that point. And I said it awaits legal advice by the
14 Legislative Council or the Attorney General as to whether in fact
15 the Legislature could, in fact, or further as one legislator has
16 suggested that they be able to approve each and every loan over
17 a certain size. I have been advised that possibly because the
18 amendment was a separate part of the Constitution the normal
19 doctrine of separation of powers might not apply.

20 MR. GALLAGHER: We have a pretty clear case on the
21 Royalty Board on which the people just voiced their opinion.

22 MR. WOHLSFORTH: I think there are some real legal
23 questions here that I hope are being addressed at the outset. I
24 have at least four that I have heard. A. How much latitude is
25 there in the Legislature to divide the Fund up into regions.

1 B. How much delegation is permissible by the Legislature to aid
2 the board. C. What does income producing mean. And D. Can
3 the Legislature appoint members of the board directly, or sit as
4 members of the board.

5 MR. GALLAGHER: That's a question whether the
6 Legislature considers it executive.

7 MR. WOHLSFORTH: I think they are all interrelated.
8 I think they are major questions that have to be addressed very
9 early.

10 MR. CRAWFORD: Is the Attorney General addressing
11 those questions?

12 MR. GALLAGHER: We have to know what the questions are
13 before we can answer them. We will try to get them answered,
14 yes.

15 MS. FLEISCHER: I move that we ask Sterling to ask the
16 Attorney General for answers to those questions before the next
17 meeting.

18 MR. CRAWFORD: Can I make a suggestion on your motion.
19 And I will second it. I would like to amend the motion to read
20 either the Attorney General or a private attorney, whichever has
21 the time prior to the next ---

22 MR. GALLAGHER: The Attorney General has a staff of 35
23 attorneys.

24 MR. CRAWFORD: I just want to make sure we are going to
25 get it back so we can do something on it.

1 ? : Would you repeat the questions?

2 MR. WOHLSFORTH: A. How much latitude is there in the
3 Legislature to divide the Fund up into regions of the State.
4 B. How much delegation of powers is permissible by the
5 Legislature to aid the board. C. What does income producing
6 mean. D. Can the Legislature directly appoint members of a
7 board. These are broad questions and I wouldn't have the
8 vaguest notion that a young Attorney General spending all his
9 time from now to the next meeting could give us clear-cut
10 definitive answers. But at least he can get started on it.

11 MR. CRAWFORD: I think it would be helpful to give
12 some type of deadline, either we can get an answer or we can't.

13 MR. EDENSO: What are you going to do if he doesn't.

14 MR. CRAWFORD: It is sometimes helpful to give people
15 deadlines.

16 MR. WOHLSFORTH: We agree. Let's move on to
17 community loans.

18 MR. GALLAGHER: Community loans. I can see in this
19 area direct lending, I can see indirect lending -- I am just
20 going 1, 2, and 3, Jim. You can see community development
21 corporations. You can see different sort of boards, different
22 agencies for different sort of things like housing, utilities.
23 Again, we're going over the range of possibilities.

24 MR. LOVE: I think Sterling earlier brought this up
25 the idea, I don't think it should be community loans but rather

1 community development. I think the earlier concept was that
2 you just go to highest and best use and maybe go to a trust
3 approach in terms of income producing, and you just give people
4 money and let them make their own choices. I mean if people
5 have more money then they can afford to pay more local taxes,
6 they can afford to buy houses easier.

7 MR. GALLAGHER: You can't do that as an investment
8 loan, you can only do that with income producing investments.

9 MR. LOVE: We're talking about three goals, trust
10 account, economic development and community development. I'm
11 saying that you might achieve community development better by
12 distributing money ---

13 MR. GALLAGHER: They've got to produce income and
14 have to have an asset.

15 MR. LOVE: I'm just saying that the way you might
16 develop a community is by having a trust account, instead of
17 reinvesting the money in a trust account, distribute the money
18 to people and that they use their money in the market place to
19 develop their own communities. I would feel better if you put
20 down community development as a goal because I don't think the
21 goal is to make loans, the goal is to develop -- development
22 type of stuff.

23 MS. FLEISCHER: Community development loans.

24 MR. LOVE: Giving away money might be -- from the
25 income, distribute the income.

1 MR. GALLAGHER: That isn't in this management
2 structure.

3 MR. EDENSO: You've got something written up there,
4 fund, and I didn't hear anybody say fund, and you've got CDC's
5 and I didn't hear anyone say CDC's. And you've got something called
6 differential. We're talking about structure.

7 MR. LOVE: I think Jim's point is he may want to deal
8 exclusively with CDC's for community development. That is a
9 potential way of doing it and it also addresses some of the
10 things we talked about earlier -- development loans, you know,
11 sort of decentralizing them.

12 MR. EDENSO: Why don't we say what CDC's are first.

13 MR. GALLAGHER: Let's say in fact what they do, they
14 do a lot of small business loans, they are not much into the
15 housing business.

16 MR. LOVE: I think there is a lot of emphasis on CDC's.
17 In depressed areas where they have tried to develop local
18 economy, big emphasis on jobs. However, I think as Sterling has
19 mentioned in earlier meetings, they could just as well be
20 involved in construction of houses as well as anything else.

21 MR. EDENSO: Bob, do you have any ideas on structural
22 organization?

23 MR. BARNES: My idea on this type of thing is, if you're
24 going to have a central board to handle this thing, then what
25 does the central board look like. I think the model that Price

1 Waterhouse came out with is basically the model that everyone
2 seems to be happy with, but we haven't addressed that citizens
3 board type thing. I don't think we should get into whether
4 we're doing direct loans or indirect loans. I'm talking about
5 the structure -- who is going to manage this, and we're
6 philosophizing on how you do these things but not the structure
7 of this entity that does it. I think that is what we should
8 concentrate on.

9 MR. LOVE: I think it should be decentralized as much
10 as possible.

11 MR. EDENSO: Do you have any ideas pertaining to the
12 structure itself or the organization of the structure, possibly
13 a board or not a board?

14 MR. BARNES: I sort of do think that the citizen board
15 approach for the political sensitivity is important. That could
16 be a small board appointed by the governor who actually operates
17 the entity and let them choose the management. I don't think we
18 should get into the board will have to have so many managers.
19 We can give that to them as their responsibility delegated to
20 them. And I think that is the basic structure. We all seem to
21 come back to that. And the Legislature will tell us the
22 philosophy, the goals that that board is supposed to meet. No
23 matter what you're going to do, basically that structure is
24 going to serve if you have a developmental type approach. If
25 you have the savings approach, you have a small board and a small

1 staff. And I think those two alternatives are the only things
2 we are talking about.

3 MR. LOVE: I think we are going to have to deal with
4 the same issue here that we did on development loans and that is
5 -- we may come to different conclusions on the two programs --
6 and that is whether or not you want to have decentralized
7 decision making about what the priorities are in different
8 communities as far as development in those communities. You
9 still will be able to have centralized management of the actual
10 development but you may want the decisions made about what they
11 want developed decentralized.

12 MR. BARNES: Mr. Chairman, I would say the citizen
13 board concept answers that question. You do have the input,
14 that's what they're there for. If you keep putting this
15 decision points out all over the State, you're going to get
16 nothing done. Someone will say no or veto it or something like
17 that. So it doesn't serve a purpose to say you have to
18 completely put it out there. You have the input on a general
19 broad basis and that's the only way it's going to work. They
20 can't say yes and no to every project, you'll get nothing done.
21 Ten years from now you'll just have money piling up.

22 MR. MOTLEY: Might I take a few minutes of the
23 Committee's time. I've spent quite a bit of time with a number
24 of other people, managerial people throughout the business
25 community on the kind of a structure that I would like to

1 basically put out to have the Committee review and have
2 discussion on. And, if it would be acceptable with you, I
3 would like to turn the board over and put it down in black and
4 white so everybody could see.

5 MR. GALLAGHER: That's what we are trying to accomplish
6 here, finish up community development. Has it been already
7 discussed in the development aspect or is it a combination which
8 we come to next?

9 MR. MOTLEY: It's basically just a structure to
10 manage the Permanent Fund, period. It does not have any
11 objective goals or anything else, but at least establishes
12 a centralized managerial group, such as Bob Barnes is talking
13 about and also Frank Ferguson was talking about it.

14 MR. GALLAGHER: What is its objectives?

15 MR. MOTLEY: The objectives will have to be settled
16 by what the Legislature says.

17 MR. GALLAGHER: Then what you are trying to do is
18 nonresponsive to what we are trying to accomplish.

19 MR. MOTLEY: Well, basically, I thought we were trying
20 to accomplish a structure, a managerial structure, to handle
21 these Permanent Funds. There has been a comment made that we
22 have to have a different kind of managerial structure if we have
23 a savings account or if we have a development corporation or a
24 community loan project. I don't think so.

25 MR. GALLAGHER: We still have one category left called

1 combination. If you want all three of those goals or an
2 additional one, maybe what you want to do is bring it up when
3 we get to combination.

4 MR. MOTLEY: All right, I'll wait -- I'll hold off
5 until after we finish the combination.

6 MS. FLEISCHER: I still don't understand how you'll
7 get regional decisions reflected under community development.
8 I think that people will have some priorities in their own
9 communities that somehow have to be reflected and I don't
10 understand how that ---

11 MR. GALLAGHER: You don't think it can be accomplished
12 with some sort of sectoral -- say the Natives want teachers
13 housing, and then you do that through Alaska Housing Finance,
14 you don't think that can be accomplished.

15 MS. FLEISCHER: Do you want to put -- repeat what
16 we've said under development under community development.

17 MR. GALLAGHER: I think we have it up there.

18 MS. FLEISCHER: Okay, then spell it out for me. The
19 board made up of representatives from different agencies?

20 MR. GALLAGHER: No, let's say you have one agency
21 handling housing and another one small business loans.

22 MS. FLEISCHER: Then how does a particular village get
23 their priorities ---

24 MR. RHODE: They would approach that existing State
25 agency to put a loan together and offer it to the Permanent

1 Fund.

2 MR. LOVE: In response to Mr. Barnes' comment that he
3 thinks the citizens board would be able to perform the function
4 of giving the input of what a particular community wants out of
5 it since we've got these guys elected from the Senatorial
6 Districts, I think the problem with that the citizens advisory
7 board is given two jobs. One is to decide their priorities as
8 to whether or not the Fund should -- let's use these existing
9 things, trust, development and community development. Now,
10 let's say you're a community and the guy that got elected ran
11 on a real strong platform of development and that was it. He
12 was opposed, let's say, to putting a lot of dough into
13 community development or the trust account. Let's say he was
14 successful to a degree that they're still going to put some
15 money into development, that may not be the person who is best
16 equipped to represent the wishes of that particular community.
17 He may have done a pretty good job in saying this is our
18 priority in terms of how we want the Permanent Fund invested,
19 but he may not be the most sensitive person as far as that
20 community is concerned in terms of community development. I'm
21 not thrilled with Price Waterhouse's idea of a 32-member citizen
22 committee meeting once a year. I would like written down on the
23 board, regional advisory committees to the central management
24 of the Permanent Fund about the types of community development
25 they want as part of the structure.

1 MR. LOVE: Also, I think we should also ---

2 MR. WOHLSFORTH: Jamie wait a minute. Others may
3 have some thoughts now and the time is short. You have really
4 had ample time. Does anyone have any other comments on this
5 subject before we turn the board over?

6 MS. FLEISCHER: Can we add veto to that because of
7 what Mr. Barnes said, and I do think the people should have the
8 right to veto a particular project if it isn't right for that
9 particular region.

10 MR. EDENSO: Should we have a general election to get
11 some kind of development done?

12 MS. FLEISCHER: I don't think we should ram something
13 through because it is good for the State if it is not good for
14 the region.

15 MR. GALLAGHER: A community development loan is a
16 pretty small loan and it only affects --- If you are talking
17 about a bigger development project, then it would fall over
18 here. But if you are talking about a housing loan in Bethel, I
19 don't want them to vote on every housing loan. The very fact
20 that you do a development loan, you've got to go out and get
21 input from the community. That is the only way you can do it.
22 If you're going to have a utility system, the city council has
23 got to decide they want a utility loan.

24 MS. FLEISCHER: In other words, you are saying it is
25 already ---

1 MR. GALLAGHER: It is implicit when you talk about
2 community development.

3 MR. EDENSO: Why don't we add to a 5th one under
4 community development loan, why don't we say city councils and
5 managers and boroughs and combined assemblies. Those are
6 structures that we could conceivably deal with.

7 MR. WOHLSFORTH: I think you get to a point where you
8 really don't like the philosophy of a development loan and you
9 get to this point. Admit it if you don't like it.

10 MS FLEISCHER: If you're talking about me, I do like
11 the idea but I want to make sure that somehow the structure is
12 set up so people have a real say as to what happens to them.

13 MR. GALLAGHER: We all agree with that.

14 MR. CRAWFORD: Mr. Chairman, I would like to ask
15 Dennis a question. Do you feel that this recommendation you
16 have come up with is applicable to the four alternatives that
17 we've had? Is it a management system that can be accepted ---

18 MR. MOTLEY: If you are asking my opinion, yes.

19 MR. WOHLSFORTH: Maybe we can get on with that. Is
20 that the board's decision?

21 MR. MOTLEY: What we tried to do in the approach was
22 to approach it as a businessman's decision if each one of us
23 was given a million dollars or a billion dollars or whatever and
24 try to work out managerial decisions on how you're going to
25 structure this thing. You can go on for an eternity talking

1 about various structures. You could have them decentralized
2 where you would have everybody in the whole State of Alaska
3 working on this thing, the bureaucacy involved would be so
4 great you'd never get anything done. Starting off here at the
5 top, using the Department of Revenue for openers. Commissioner
6 of Revenue. Over here in this block will be the Deputy
7 Commissioner and we have Deputy Commissioners of the Treasury.
8 I'm taking a line off of that because of the fact the
9 Department of Revenue has already got short term vehicles,
10 people working down there in governmental investments in
11 Treasuries and CD's or deposits in the bank, we thought that
12 working off of this particular Department of Revenue which is in
13 charge of handling money for the State of Alaska. Over here a
14 totally separate group of people, i.e., a president -- or start
15 from the top, Chairman of the Board, president, vice president
16 and so on. The same structure as the banks. When a bank such
17 as Bob Earnes, or the NB of A or the First National -- have a
18 working staff and the Chairman of the Board and the president
19 and these various officers, depending on the amount of work to
20 be developed and this will depend on whether or not we are just
21 going to go to savings or whether we are going to development
22 or community loan and whatnot. The larger it is the more staff
23 you're going to have. Over here and totally separate from any
24 other entity -- we have this box, and we have a staff of people.
25 For example, you decide to go just into a savings account, you

1 might get one person, i.e., a money manager from Outside which
2 will invest in CD's or governments or whatever we have. We
3 think that they should have a board of directors. We selected,
4 and this is something open for discussion, 12 people. The 12
5 people are broken down into groups of 3. The top group would
6 be in power for 4 years. The next group is 3 years, 2 years and
7 1 year. By structuring it like this you are going to alleviate
8 potential possibilities of turning this thing into a political
9 football because of the fact this particular individual up
10 here will be in office, either elected or appointed, for 4
11 years, Governor Hammond is going to be there for 2 years, or
12 maybe another 6 years. But each one of these individuals will
13 keep moving on so there will be no direct conflict by the
14 board of directors who, in fact, will be the people -- the
15 board of directors will be responsible to these people here.
16 These people can hire or fire these individuals depending on
17 the performance of what they are doing with the Fund.

18 We suggested that these 12 people be selected, 6
19 from the administrative group, the governor's group, and 6 from
20 the legislative group. Those particular individuals would be
21 chosen such as the way the commission board or the board of
22 realtors is chosen. Divide the State into five different
23 sections and a particular individual comes out of each one of
24 those areas to make up the board of realtors, to make all the
25 decisions in the real estate area. Now, this particular group

1 up here is expanded to whatever the demands are going to be.
2 If you decide every step is going to go into development, general
3 development of the State of Alaska, needless to say this
4 particular board is going to have to be much more large in size.
5 If you elect just to put it in savings, probably one small
6 business manager and one-quarter of one percent in the Lower 48
7 to invest in various savings accounts, Treasuries, or whatever.
8 Just an individual, maybe out of the Revenue Department. But
9 this way, you have totally alleviated the thing from the
10 political atmosphere. This particular board could treat just as
11 a business assignment. Take the money and make it go.

12 Now, as far as the structure of these people are
13 concerned, this has to go on to a later date because the
14 people of the State of Alaska or the legislature will have to
15 decide what kind of vehicle they are going to want. If they
16 want a combination of savings account, general development or
17 community. That could be called maybe Alaska General Development
18 Corporation or it could be called something else that the
19 Price Waterhouse people and the White Weld people come up with.
20 That is something the legislature itself is going to have to
21 decide and that will be the proportionate or amount of money for
22 each area that you are going to want to go into. At least by
23 keeping this concept, working management, they can immediately
24 take over the responsibility.

25 MR. BARNES: I think you need a tie-breaker on your

1 board, either 11 or 13.

2 MR. MOTLEY: 13 we'll say, or some odd number. The
3 question was asked, how is the policy decision made up here.
4 The policy decision would come -- let's assume that after this
5 Committee and the legislature have come to an agreement, 1/3
6 into development, 1/3 into local community areas and 1/3 into
7 savings. This policy would be handed to this group of people
8 by the legislature, these people would be responsible -- if
9 they didn't they'd get fired and put in new people. By putting
10 in the kind of staff, you can go out and hire the best in the
11 United States to be the president of the board and so on, so you
12 have the best banking expertise.

13 These particular individuals will be six from the
14 legislature, six from the administrative department.

15 MR. FREER: The six from the administrative side, do
16 you contemplate they would be existing employees of the State
17 or would they be from the public sector.

18 MR. MOTLEY: From the public sector.

19 MR. FREER: Would they be fulltime paid employees?

20 MR. MOTLEY: Our suggestion was that the governor
21 would select six people, again using the real estate's board
22 concept, divided into 5 different sections. Try to pick people
23 out of each one of the sections so each one of the sections in
24 the State of Alaska has representation. The same with the
25 legislative people over here, they would choose their people

1 from the various areas of Alaska so that the whole State is
2 represented to help make these decisions.

3 MR. FREER: Are they voluntary, or are they paid?

4 MR. MOTLEY: We believe that they should be on a
5 voluntary basis. These people up here, this board of
6 directors, working board of directors are going to be paid very
7 handsome amounts of money. These people over here will be
8 supervising to make sure that your policies, whatever the
9 legislature chooses, is carried out. And if it isn't carried
10 out, you remove the board of directors and put in a new board
11 of directors.

12 MR. WOHLSFORTH: Mr. Gallagher has to leave but we
13 might as well continued with any questions on this.

14 MR. EARNES: It is very similar to the Price Waterhouse
15 model. You are using the legislature as the citizens board.
16 And you are setting up an operating board and it sets up
17 management which is pretty much what Price Waterhouse has said.
18 Doesn't it strike you that it is fairly similar?

19 MR. MOTLEY: We felt that it was a little bit more
20 workable from the standpoint that it is more clear cut and less
21 bureaucracacy involved so far as getting those decisions out.
22 And it also gives more attention to these particular individuals
23 who are up here. If they don't carry out these policies that
24 have been selected, these 12 people are going to elect to fire
25 them. It's just like over at your shop, if you don't carry out

1 the policies of your board, the decision of the board, you
2 aren't going to be there any more.

3 MR. WOHLSFORTH: Any other discussion before Sterling
4 has to take off?

5 MR. LOVE: Two comments. First, I am wondering when
6 we're going to address different ways of things to do with the
7 earnings. As we have community development, development and
8 trust funds, I think we ought to have -- that the goal is to
9 redistribute the wealth.

10 MR. GALLAGHER: If your goal is to redistribute the
11 wealth, how ---

12 MR. LOVE: I would like us to take a look at possible
13 ways of distributing it. There will be prosperity in the State
14 brought about by the revenues, who is going to get the most of
15 it? Who is going to become wealthy and who is going to remain
16 poor? I'm not saying we should discuss it right now, but I
17 think those are some things we are going to have to discuss.

18 MR. GALLAGHER: The third week in December is the
19 next meeting.

20 MR. MOTLEY: Is there a possibility to move it forward
21 just one week?

22 MR. EDENSO: Jim Rhodes and I have talked at some
23 length about the next meeting. Due to travel schedules and
24 time of the day, time of the year, holidays and everything, it
25 looks as though the third week of December is probably the best.

1 And probably if we could have another 2-day meeting. I think
2 we pretty well filled up two days this time, so December 17 and
3 18th. But that is only open to the Committee. If the
4 Committee decides that is a bad time, then let's hear some
5 other suggestions.

6 MR. MOTLEY: Would it conflict very much with the
7 Department of Revenue if we had it sometime between the 6th
8 and the 10th, which is the second week in December?

9 MR. LOVE: I would like to see us meeting again in
10 the month of November, even if we don't have a -- because I
11 think this has been very fruitful.

12 MR. : If we could have some work committees
13 in November and come back and look at organization and
14 structure.

15 MR. LOVE: This has been very helpful to me in getting
16 a clearer picture. I would like to the committee as a whole
17 meet sometime in November and pursue the discussion we started
18 today. Maybe just for a day.

19 MR. WOHLSFORTH: I wonder if it came to a vote how
20 we would feel about some subcommittee work. I think you
21 resisted it very strongly at the last meeting.

22 MS. FLEISCHER: No, we didn't, we asked for it.

23 MR. EDENSO: If we are going to hold a meeting that
24 soon, I would like some ideas, or at least a better idea of what
25 we are going to attack or address at that meeting.

1 MR. LOVE: I would like us to talk about the two things
2 I mentioned previously. Distribution of earnings from the Fund
3 and the effect of the investment policies on either
4 concentration of wealth --- Secondly, I think we should have
5 some additional presentations, if we could, by the consultants
6 giving us a background on present State loan programs and maybe
7 something relative to the activities of the Native Corporations.

8 MR. RHODE: I think to take each one of these areas
9 we have discussed today, the three different separate goals
10 and start looking at how an organization under that would be
11 structured.

12 MR. : You might break down into subcommittees
13 on the basis of the three sets of structures, and in each case
14 focusing on what kind of governing board. What any of them be
15 elected or not. Would you have professional managers that are
16 appointed by an executive officer.

17 MR. WOHLSFORTH: The idea of subcommittees makes worlds
18 of sense. These are expensive meetings when you consider the
19 number of people who are being brought in from throughout the
20 State.

21 MR. LOVE: What kind of subcommittees do you want?

22 MR. WOHLSFORTH: I think Jim had a suggestion on that.

23 MR. RHODE: According to the three things.

24 MR. LOVE: I don't think one on the savings account.

25 MR. RHODE: Probably not, but on the other two.

1 MR. LOVE: Community development and development.

2 MR. RHODE: I think that allows people who have strong
3 ideas in one area or the other to concentrate on them.

4 MR. LOVE: Just work sessions and whoever shows up
5 becomes the subcommittee.

6 MR. RHODE: Have a work session and then at the next
7 formal meeting in December.

8 MR. LOVE: Let's have a couple of work sessions on
9 those two subcategories that you mentioned sometime in November,
10 and just those who are interested in those particular areas
11 make up the subcommittees

12 MS. FLEISCHER: Could you ask the consultants to come
13 up with some ideas on the structure based on these alternatives.

14 MR. RHODE: You have the structure in front of you. I
15 think it is a relatively simple one. In my judgment, every
16 issue that you have to face is laid out in the paper by Price
17 Waterhouse or White Weld.

18 MS. FLEISCHER: I don't think it is very workable.

19 MR. : One is simple and one is complex. If
20 the complex one or the goals demand complexity, then it is
21 variations on a theme that Price Waterhouse has suggested. The
22 questions are, should the citizens board be elected or appointed,
23 should it be -- should the citizens and the governors board be
24 merged into a single board. Should the governor be given
25 guidelines as to how he designates his people. Then the next

1 level is operation as opposed to management and a control.

2 MS. FLEISCHER: I guess what I wanted to know is
3 whether we could have some help on the implications of the
4 variations on the theme.

5 MR. CRAWFORD: I think it is going to be very
6 difficult for us to come up with any kind of concensus on a
7 structural entity until we get the answers from the AG so far as
8 the constitutional questions.

9 MR. WOHLSFORTH: It might be helpful if we do have an
10 interim meeting and the young AG's assigned to the problem could
11 advise us at least -- give some preliminary views and that would
12 lead us a little bit farther down the line. I doubt very much
13 if we could get a definitive yes, no answer very quickly, if at
14 all. On the 17th and 18th, is that agreeable for the next full
15 board meeting.

16 MR. EDENSO: There is some difficulty with that whole
17 week.

18 MR. MOTLEY: How about the 3d and the 4th of December.

19 MR. WOHLSFORTH: Will somebody move that? If no
20 objection, so ordered.

21 MR. EDENSO: A subcommittee meeting on the 19th and
22 20th has been suggested.

23 MR. RHODE: Does the Committee available at this work
24 session or not?

25 MR. WOHLSFORTH: 19th and 20th for a workshop, December

1 3 and 4th for the regular meeting. May I have a motion to
2 adjourn?

3 MS. FLEISCHER: So moved.

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5 (MEETING ADJOURNED AT 1:50 P.M. NOVEMBER 6)

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