

SCOMM

#9:6

GOVERNMENTAL & POLITICAL AFFAIRS

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25 July 1977

Representative Clark S. Gruening
Chairman, House Special Permanent Fund Committee
Anchorage, Alaska

Dear Clark,

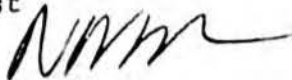
Recalling our conversation of Friday evening regarding a follow-up on the SIAC study I prepared in January, I have the following in mind:

1. ~~re~~establish contact with the people I interviewed regarding their awareness of the current status of Fund activities
2. ~~preparation~~ of additional questions to gauge the above
3. possible expansion of the number of interview subjects

I would be pleased to discuss with you any ideas or suggestions you have in this regard.

Hope to hear from you soon.

Best



Norm

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September 21, 1977

The Honorable Clark S. Gruening
Chairman, House Permanent Fund Committee
528 West Fifth Avenue Suite 270
Anchorage, Alaska 99501

Dear Clark:

As we discussed some weeks ago, here is the proposal for my follow-up of last years Permanent Fund study.

My plan is to contact all of last years respondents during the month of November to conduct interviews and to prepare the report during the first two weeks of December. It would ready for the convening of the session in January.

I will hold off actual question design until we can get together so I can find out what exactly you think should be included. I hope to hear from you soon. I will be outside during the month of October, so I hope we can get together soon.

I have attached a cost estimate and breakdown.

Cordially,



Norman Bailey

Honorable Clark S. Gruening
September 21, 1977
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COST ESTIMATE

1977 Follow up Permanent Fund Attitude Study

Preparation, Interviews, response analysis, Consultations with Committee members and Staff various during November	20 days	\$ 3,000
Printing, Materials and supplies		500
Travel		200
		<hr/>
Total		\$ 3,700

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A CANVASS OF ATTITUDES
CONCERNING
ALASKA'S PERMANENT FUND

Prepared for the State Investment
Advisory Committee
January 10, 1977

GOALS OF THE CANVASS

THE QUESTIONNAIRE: STRUCTURE AND ANALYSIS

RESPONSES

SUMMARY AND RECOMMENDATIONS

APPENDIX

GOALS

The canvass and questionnaire were designed to help members of the State Investment Advisory Committee with their determinations of the directions and potentials of the Alaska Permanent Fund.

It is hoped that the responses gathered will:

help delineate levels of awareness about the structure of the Fund, its varied possibilities for investments, and its potential impacts;

help gain an understanding of the current thinking and depth of knowledge about the economic, commercial and governmental complexities likely to develop from fund activities;

help determine what long and short run goals the Fund should pursue;

help make recommendations to the Committee regarding the development of Permanent Fund legislation.

THE QUESTIONNAIRE: STRUCTURE AND ANALYSIS

Structure

The questionnaire used with the interviews consisted of twenty-five questions. Thirteen specifically referred to aspects of the Permanent Fund. Ten focused on other areas of peripheral influence on Permanent Fund development.

Analysis

In part, the questionnaire was designed to gauge the level of acceptance of the idea of the Permanent Fund, to determine to what degree certain economic relationships are understood. It was also designed to test understandings of the assumptions that underlay the Permanent Fund. Several questions relate to issues involving where the Fund should be placed, who should run it, and what controls should be placed on those in positions of greater authority.

The questions gauge perceptions about various aspects of State government. There were "level of confidence" questions. Also included are questions that deal with rural Alaska and activity by native land claims regional corporations, petroleum industry impacts and operations, and the proposed capital move.

In summary, the questionnaire addresses the Fund and its potential activities, that is, perception or projection about what might happen; it addresses and attempts to gauge certain relationships of economic and political significance; it attempts to get a feeling

about how the Fund is perceived by those with whom the Committee and the Legislature have little contact.

THE RESPONSES

The general attitude toward establishment of a Permanent Fund to conserve part of Alaska's oil wealth broke nearly 50/50 between favorable and mixed. Those who favored the Fund seemed to have a little better working knowledge of various State issues that may be affected by Permanent Fund activities. Those with mixed responses expressed a distrust in the ability of the "political system" to keep its hands off the Permanent Fund monies. Several felt the Fund would be "just another pork barrel for politicians". Those who did not favor the Fund expressed the view that monies should not be "locked up" now, when so many pressing problems have not been solved. Cited were the areas of criminal justice, alcoholism, education, municipal needs, and rural problems.

Respondents favored the savings aspect as the focus the Fund should pursue. Though few could put a number on how much should be saved, conservation and continued permanency of the corpus of the Fund were fundamental desires.

No clear perceptions or ideas about how the Fund should be structured or implemented were evident. In part this stems from a minimal amount of contact with technical Permanent Fund issues. Nearly all respondents expressed a concern about the insulation of the Fund from political manipulation. A small, tight, non-bureaucratic structure was favored by those who did express a desire in that regard.

A majority of respondents recognized a relationship between the Fund and other State expenditures. Some interesting responses were encountered on this question. Several felt that a 25% or greater diversion of Revenues to the Permanent Fund would only hasten what they considered a critical State revenue-expenditure situation. Several expressed the view that the vote for the Fund was a message to not repeat the \$900 million experience. Many felt that the Fund could do little to stop the "ratchet" effect of State operations and budget expansions - that the State should be placed on a "pay as you go basis".

More than 50% of the respondents felt the effect of the Fund on the State economy would be positive. A little less than 50% took the pessimistic view that the effect could go either way. This attitude was formulated along the argument that politics (negative connotation) would probably prevail and that the public would lose out again as it has before. Several respondents brought up the point that Alaska has the opportunity and potential to produce a Fund which undertakes to spend or invest Permanent Fund monies in new and innovative ways. In general, it was felt that the Fund could insure reserves for future needs but the short term stabilising effects the Fund might have were under suspicion. "It all depends on how the policies are developed and who administers them."

The overwhelming response to the question of State growth and development was that it should be left to "private enterprise". This response contains a contradiction in terms. Respondents previously envisioned the Fund as having a "positive effect" on the

economy which assumes that either Permanent Fund activities (through a State government entity) will occur primarily in or through the private sector (bank involvements etc.) or, that the respondents did not recognize that certain spending patterns presume " planning ". In any case, State spending activity, whether through the Fund or not, assures some "plan" of development and growth (even though it might be random). It is clear that a formal State-administered growth or development plan is not favored.

In general the Legislature received poor marks. Its strengths were outlined as:

- * its diverse nature and the generally high quality (morals and motives) of its members;
- * uniform rules that encourage cooperation between the houses and among the members;
- * its sense of public morality, adversary nature and balance of attitudes and desires.

The weaknesses pointed out were manifold. Those mentioned most often were:

- * portions of the Rules system, particularly the power of presiding officers to appoint conference committees with powers of " free conference "
- * the isolation and remoteness of the present capitol was viewed as not conducive to efficient government.

- * the lack of adequate notice on many hearings and committee meetings
- * a tendency of the legislative bodies to react rather than initiate
- * the inability of many members to back off and get a better perspective on "hot" issues

Other criticisms were leveled at the fragmented decision-making structure, the lack of adequate pay and staff, over-reaction of the membership to lobbys and pressure groups that are ever-present, the divisive nature of geographic sectionalism and the trade-offs that prevail, and a tendency to delay rather than create (except, as one respondent observed, more red tape and bureaucratic layers!).

Those who responded to the question which asked what areas of the state economy might best benefit from Permanent Fund investment indicated that more study and technical analysis of the various sectors be made before any investments were undertaken.

Few respondents felt they possessed a qualification to comment on whether or not the Fund should involve itself with loan guarantees and equity purchases. Most felt the area should be thoroughly explored by the legislative inquiry to be conducted this session. Most felt the Fund should be placed under stringent internal controls.

Nearly two thirds of the respondents felt the Fund should be located outside of existing State agencies. They expressed the desire that it be autonomous and that it be insulated from "political" influence to the greatest degree possible. Those who preferred that its location be inside an existing agency or other State entity viewed the Fund as more an "accounting" entity than a policy and program maker. An additional view was expressed that it be a small operation, controlled, and subject to outside audit and examination.

Respondents were nearly evenly divided on questions concerning the level and quality of State services. The level of State services received marks from too high and improved greatly to primitive. Several felt levels were best judged on a local basis - that the State performed remarkably well given its age, size and complexity of problems. The quality of State services received mixed marks centering on mediocre, inefficient, and isolated. Sunset laws were offered as one way quality might be improved.

The outcome of the November general election was well received. The common expression and observation was that the new legislature has "better balance". The most important issues, besides the Permanent Fund (which ranked highest) were:

- * Fiscal policy and taxation matters
- * Capitol move
- * Workman's compensation and medical malpractice

Nearly all respondents felt the "private enterprise" aspect of native regional corporations was their strongest asset. Most were

acutely aware that the volume of commercial activities, particularly resource development, engaged in by the regional corporations will have a significant effect on various economic sectors. They felt the effects of the spending would be positive though the reservation was expressed that at least one failure was possible and that several corporations would probably not grow beyond a certain size. Though the corporations were viewed as having a potentially positive effect over the long haul, some observed that native "power cliques" were becoming oppressive and could possibly hinder short term growth. In general, the ANSCA has been well received and is viewed as one of the most significant Congressional Acts of this century.

The petroleum industry as a whole received good marks with regard to the effects of its varied impacts across the State. There is a clear perception that the State pins much of its ability to provide a wide range of quality services (while protecting Alaska's beauty) on the success of the petroleum industry here. At the same time the observation was made that the industry and State officials must learn to trust one another, that a confidence must be rebuilt between the two and that Alaska must construct a comprehensive petroleum policy and stick to it. Response to industry activities overall was of a positive nature.

Nearly all respondents were unanimous in observing that Southeast Alaska possessed great potential but that as a community in general it has not worked up to that potential. Feelings were mixed regarding whether or not the Fund should be involved in timber, fish, and tourism (since programs currently exist). It was observed by some that no

geographic distinction be made or allowed.

Little or no relationship was perceived between the Fund itself and the proposed capital move.

The preponderance of responses fell against the use of subsidies (except in the utility area) or involvement by the Fund directly as a resource developer.

It was clearly accepted that the State has responsibility for the development of long term infrastructure on a statewide level. Generally, most respondents felt the Fund should not be involved in the development of infrastructure - that that should be accomplished through the normal capital projects budgetary process.

Nearly unanimous agreement was reached that the magnitude of the Permanent Fund and the effects of petroleum revenues are not well understood. The anomaly here is that most felt that rising expectations and demands would outstrip the monies available for at least ten years if not twenty. One respondent termed it as "everybody wants a piece of the action (or think they deserve it) syndrome". That is a significant insight.

Again nearly all respondents were unanimous in their desire that the legislative process and the Administration develop detailed information about State finances and economics during this year and press for a Permanent Fund enabling act during the 1978 session.

Response was nearly non-existent to the social benefits question.

The future of rural Alaska was characterized as both bleak and one full of potential. The subsistence way of life seems doomed, village consolidation seems an accepted fact as does the net out-migration of

young natives to urban areas where the money and action is. Rural Alaska is seen as having a high long term economic potential but most perceived that significant investments will be required to unlock and develop that potential.

The business climate was unanimously proclaimed to be excellent.

Little or no effect on Alaska's electoral future was perceived in the relationships of registration statistics.

I received an overwhelmingly positive response to this method of gathering information and initiating contact. Nearly every respondent was very enthusiastic and extended an invitation to return.

SUMMARY

Respondents to the canvass came down solidly in favor of a Permanent Fund focused on the savings concept and one that stresses a high degree of safety and quality in any investments the Fund might make. Over and over they emphasized the word "permanent". Nearly all felt the Fund should have as two of its major goals the conservation of capital, and that it should always insure that the benefits of its activities accrued to Alaskans to the highest degree possible. Most perceived the Fund in simple terms, expressing a fervent desire that it not turn into a powerful bureaucracy. All expressed the desire that the legislature fully publicize all anticipated aspects and decisions regarding formation of the Fund during the up-coming session.

The idea of the Fund was founded on the argument that non-renewable resource revenues ought to be preserved and that the Fund perform as a kind of spending brake. On an ever expanding State budgetary process, with built in ratchet-like increases, the only possible method of reduction is the removal of revenues. To the extent the Fund is able to restrict its own spending it may be able to accomplish an overall reduction in the increases of the regular budget process.

RECOMMENDATIONS

After conducting the canvass and analyzing the last two years activity and resulting passage of the Permanent Fund Amendment to the Alaska Constitution I make the following recommendations:

- * the Department of Revenue be extended an interim authority over Permanent Fund monies as they accumulate for placement consistent with present State policies for the conservation of State revenues.
- * if a Permanent Fund enabling act is passed it should require a complete economic and financial analysis of the State and that projections under differing sets of circumstances be prepared to gauge the effects of possible Permanent Fund activities.
- * a three to five year moratorium on Permanent Fund investment other than those engaged in to preserve the principal be placed, in a effort to build up a lead time for planning and analysis purposes.
- * once the Fund begins investments no more than the amount received in the third preceding year be placed or loaned in that and subsequent years and that in any year no more than a certain amount be pledged or used as guarantees.
- * an effort to truly make the Permanent Fund a "peoples fund" be accomplished by establishing a "Permanent Fund Jury" which would decide what proposed investments offered by the staff be undertaken. The Jury might be selected by

requesting all citizens to send applications and/or resumes and then select twelve to fifteen randomly for a one year term. Service on the jury would not be mandatory. The jury would meet twice during the year of its selection. Use of the jury concept would insure that the final decision making power of the Fund remained with those supposed to be its ultimate beneficiaries.

APPENDIX

One

What is your general attitude or response to the proposed permanent fund on the November 2, ballot?

Two

In what way would you prefer the fund be implemented or structured?
What do you think the focus of the fund should be?

Three

With the general question of state expenditures in mind, how would you characterize that question in relation to the proposed fund?

Four

In general terms what do you think the effect of the proposed fund will be on the economy of the state ?

Five

Do you favor a " development and growth plan " administered by the state government agencies or development and growth that is left, in general, to " private enterprise " ?

Six

Would you name 3 major strengths and three major weaknesses of the legislative branch of state government ?

Seven

In more specific terms, what areas of Alaska's economy do you think could best benefit from investment by the permanent fund monies?

Eight

After the fund is implemented and begins its activities do you think it should make " loans " or " guarantee bonds ", invest only in government and corporate securities, what combinations or additions would you make?

Nine

What controls do you think should be placed on those with the authority and responsibility for administering permanent fund activities?

Ten

Do you think the fund should be placed inside or outside of State government? Should it be administered through a state agency or an autonomous body?

Eleven

What is your general impression of the level and quality of state services?

Twelve

What is your general reaction to the outcome of the November 2nd General Election? What do you think will be the most important issues of the coming legislative session?

Thirteen

What effect do you think increased levels of economic activity and spending by the Native Regional Corporations will have on Alaska?
What is your general impression of the Alaska Native Land Claims Settlement Act?

Fourteen

In general terms, how would you assess the impact of the petroleum industry (and other resource intensive industries) on Alaska?

Fifteen

Southeastern Alaska has fairly narrow population and economic bases. What do you see in the future for its main economic sectors, timber, fish and tourism? Do you think the proposed fund should be involved in any of these areas?

Sixteen

With the proposed capital move in mind, how would you characterize the relationship (if any) between the fund and the proposed move?

Seventeen

In the area of " resource development " how would characterize the influence of the fund? What about questions of (economic) subsidies? To what extent should the fund be involved with investments in " high subsidy " resource projects?

Eighteen

What responsibility do you think the state has to develop an infrastructure (airports, roads, port facilities, power projects) that will assist overall statewide economic growth and development? Should the proposed fund be involved with investments in those areas; to what extent should " tolls " be charged to reduce the real costs of establishing infrastructure?

Nineteen

To what degree do you think the magnitude of the fund and the magnitude of the effects of " petro - dollars " Alaska will soon receive are understood?

Twenty

Since the proposed fund language stresses that : " the principal (of which) shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investment." , legislation that specifys " eligible investments " will be very important -- Do you think that legislation should be enacted in the up - coming legislative term OR do you think an Interim study with full statewide hearings should be conducted to determine the nature of the " eligible " investments?

Twenty One

What social benefits could the fund investments bring to Alaska?

Twenty Two

How would you characterize the future of rural Alaska?

Twenty Three

In general terms how would you characterize the business climate in Alaska?

Twenty Four

Alaska has 207,826 registered voters. 111,082 are listed as Independents. Independents outnumber Democrats and Republicans combined. What effects do you think these registration relationships will have on the future of Alaska's politics?

Twenty Five

General comments or remarks