

ALASKA LEGISLATURE COMMITTEE FILES 1981-1982 86/2

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such as homes, real estate, and businesses which not only provided returns substantial enough to accumulate real wealth, but also provided some current benefits to themselves and their families while being invested. To date, the Permanent Fund has not succeeded in this respect.

A fourth and final step to financial success is an on-going reinforcement of the belief that the program is worthwhile and merits continued support. That is to say, the program, in addition to being successful, must be perceived as being successful or eventually the saver/investor will lose interest and discontinue the program. At the present time, the Permanent Fund does not really have a "constituency". In fact, most Alaskans perceive it only as a device to keep the "money bins" of the Bank of America full. If there is to be continued political support by the citizens of Alaska for making additional voluntary contributions to the Permanent Fund, it is essential that they soon begin to perceive some benefits.

It is the belief of the Alaska Association of Realtors that if the Alaska Permanent Fund is to be acknowledged as a successful savings/investment program, immediate efforts must be taken to correct the deficiencies in steps three and four of the wealth building process. The solution to these deficiencies is so simple that it can be summarized in the slogan "Alaskanize the Permanent Fund". While there are those who believe that the entire Permanent Fund should be invested in Alaska, it is the opinion of our Association that it would be impossible to invest the entire Permanent Fund in the State without causing serious economic inflation and without making low quality investments which would fail to meet the objective of a true growth in value. Nevertheless, it is our belief that a prudent, conservatively managed program of investing a significant portion (say 25% to 40%) of the assets of the Fund in the State of Alaska would provide the opportunity for expanding the economic base and the tax base which will be needed when the oil money runs out. We further believe that such an investment program in the State of Alaska is ultimately the most prudent way of building a constituency.

We recognize that there is currently on the books a law which would acquire a constituency for the Permanent Fund by making direct dividend distributions to the citizens of Alaska. Even if this plan should be approved by the Supreme Court of the United States, we have some serious reservations about its success in establishing a truly successful savings/investment program. First of all, no savings and investment program can be successful unless it retains its purchasing power by growing at a rate at least equal to the rate of inflation. Therefore, the only money which should

be considered for withdrawal from the fund for the purposes of distribution for present day consumption would be that portion that constitutes true profit (i.e., percentage rate of return which is in excess of the underlying rate of inflation). While everyone would like more money and while the members of our Association recognize that distribution of dividends will increase spendable income and thereby the current economy, we oppose any level of distributions which is greater than the "true earnings" on the fund. While the prudent person will utilize the after tax portion of his distribution to supplement his own savings/investment program and thereby help to build the underlying private wealth in the State of Alaska, that will not be true in all cases.

It is the opinion of our Association that a program of loans at reasonable interest rates which will allow Alaskan families to purchase homes, build and expand businesses, and develop the underlying economy will eventually provide a more solid constituency for the Permanent Fund and will have a greater long term benefit for the State of Alaska and its citizens than a program of dividend distributions. A program of investment in the people and communities of Alaska will provide the broadened tax base which will be necessary to support our government in the late 20th and early 21st century.

It is important to stress at this point that our Association is not proposing that the Alaska Permanent Fund become the sole source of financing in the State of Alaska nor are we proposing that any loan be made which would not meet the "prudent man rule". We would also oppose loans at a rate of return to the Permanent Fund which does not provide for a positive growth rate on the investment. On the otherhand, we do not believe that loans and investments in Alaska should be at the "highest rate that the market will bear". It must be remembered that the ultimate benefit from a program of investing in Alaska will be in establishing a broad economic and tax base for the future - not upon the current rate of return. Again, using our example of private wealth building, it must be recognized that few successful investments in homes and businesses are made based upon obtaining the highest current rate of return available. Long term wealth building takes a long term commitment. We believe that long term loans to Alaskans at rates in excess of the underlying inflation rate but "less than the maximum rate that the market will bear" will ultimately provide the greatest long term accumulation of wealth to the citizens of the State of Alaska. If the Permanent Fund can develop a constituency through providing loans and investments within the State as opposed to current distribution of dividends, it will have greater sums of money which can be invested outside of Alaska at "the maximum rate that the market will bear" and, therefore, ultimately result in a much larger Permanent Fund.

Because of uncertainty about the future of inflation, we recognize that there is a hesitancy on the part of some investment advisors to recommend investment in long term fixed rate investments. However, it must be remembered that rates of inflation and investment go down as well as up and in a few years, investments at rates below the current market could be perceived as being wise investments. In any event, it is not the position of our Association that investments in business and housing loans should be made only at fixed rates but it is rather our position that such investment decisions should be made with a long term outlook in mind, recognizing that the ultimate and greatest benefit will be in developing an economic and tax base not totally dependent upon oil revenues.

While our Association strongly endorses the program of business and economic loans and investments, our primary expertise is in the field of housing and, therefore, the balance of this paper will be addressed to how the Permanent Fund can assist in meeting the housing needs of Alaskans while at the same time meeting the four rules for developing a successful savings/investment program.

Next to air, water, food, and clothing, the most basic of all human needs is the need for adequate shelter. This is particularly true in an environment as harsh as that of Alaska. If the satisfaction of that basic need can be coupled with one of our fundamental rights as American citizens, namely the right of each individual to own property, and, if that can be a tangible benefit of the State's wealth available to Alaskans, then it will be a positive step toward strengthening the third and fourth criteria for a viable savings/investment program outlined earlier in this testimony.

In addition, the social climate of communities of homeowners as compared to neighborhoods of tenant occupancy can be documented historically with regard to both increased community amenities and reduced welfare needs. From the standpoint of the prudent investment, the resulting economic base can be perceived as a source of future tax dollars in rather than future dollars out of the State's treasury to support social programs.

Although the current mortgage loan programs administered by the Alaska Housing Finance Corporation have been quite successful in meeting current needs for the purchase of single-family homes in most areas of the State, the program still has serious limitations and is still not comprehensive enough to meet the total housing needs of Alaska's citizens. The deficiencies in the current housing programs are as follows:

1. There is no program currently in existence to assist in the construction of rental housing other than duplexes. As a result, there currently exists a critical shortage of rental housing in most areas of the State and unless a program is implemented or unless rents rise to a sufficient level (approximately 50% above current levels) to justify new construction with mortgages at "the maximum rate that the market will bear", this shortage will become more acute.
2. The current program is in reality only a temporary year-to-year program in that each year it is dependent upon appropriations from the Legislature to continue its existence. As a result, the cost of housing is increased due to the inability of builders to make long term commitments for land, materials, and labor. Costs are also increased because other supporting occupations and services such as bankers, Realtors, surveyors, title companies, are also unable to make long range plans.
3. The program is currently funded through the sale of securities to the traditional capital markets with an appropriation made by the State of Alaska being utilized to reduce interest rates paid by borrowers to an affordable level. Since the last sale of these securities was at a rate substantially greater than the current earnings on the Permanent Fund, the State of Alaska is now in the unenviable position of borrowing high and investing low.

It is our belief that many of the housing needs of Alaska can be met through the implementation of programs such as general obligation bonds for Veterans loans, sale of tax-exempt bonds for qualifying loans to lower income persons, use of junior Deeds of Trusts in conjunction with assumable loans, and other programs more fully outlined in our position paper, "A Proposal to Meet Alaska's Housing Needs" which was released earlier this year. Nevertheless, the use of a substantial portion of the proceeds of the Alaska Permanent Fund to purchase the securities of the Alaska Housing Finance Corporation or other agencies established to administer housing loan programs, could provide for the much needed stability to these programs and could eliminate the true loss of capital to the State of Alaska which currently occurs due to the sale of mortgage bonds at a rate greater than current earnings on the Permanent Fund.

Should the Trustees of the Alaska Permanent Fund decide that they would like to utilize a portion of the Permanent Fund to invest in Alaska to build a long term economic and tax base and thereby develop a constituency of Alaskan voters who would then have a real perceived "stake in the Permanent Fund", then our Association would like to assist in developing such a program. There are numerous forms of "creative mortgage programs" which can be utilized to provide the Permanent Fund a positive return in excess of inflation while at the same time providing the opportunity to Alaskans to acquire housing at an affordable cost. Because the types of mortgages are quite complex in nature, they have not been addressed in detail in this testimony. Rather, the purpose of this paper is to advocate a philosophy of investing a portion of the Alaska Permanent Fund in meeting the housing needs of Alaska's citizens. Should the Trustees decide to pursue such a course of action, our Association and its members will be happy to assist in any manner possible.



FINANCING HOMES FOR ALASKANS
A ROLE FOR THE ALASKA PERMANENT FUND

A Proposal by the Alaska State Association of Home Builders

In response to the invitation of the Board of Trustees of the Alaska Permanent Fund, the Alaska State Association of Home Builders is pleased to submit the following proposal for a role for the Alaska Permanent Fund in providing mortgage money for homes and residential real estate in Alaska.

There are several basic investment goals for the Permanent Fund. These choices have been described in various ways. Most recently, the chairman of the Board of Trustees of the Alaska Permanent Fund, Elmer Rasmuson, in a September 10, 1981 memorandum to the trustees set out the choices as the "Savings - Income Approach" and the "Full-Scale Development Approach."

Even though we believe that the Homebuilding Industry is of great importance to the social and economic well-being of all Alaskans, we also recognize that the constitutional role of the Permanent Fund must be, by virtue of its limited and discreet goals, essentially different from that of the General Fund. It is clearly evident that the General Fund which receives about 90% of total state revenues is more suited for achieving a greater variety of goals.

The six trustees of the Permanent Fund are not elected officials. Nor are they constitutionally endowed with the authority to legislate policy. The legislature's decision on statutory guidelines for investment of the roughly 10% of state revenues automatically flowing in the Permanent Fund (as well as additional "voluntary" appropriations by the legislature) should be in accordance with a clearly defined investment strategy.



Above all, we would agree with Chairman Rasmuson that Alaskan investments of the Permanent Fund should not be doled out on a political basis or be the dumping ground for questionable proposals. Nevertheless, there is a proper and necessary role for the fund to play in the Alaska economy which is consistent with the "Trust" or "Savings-Income" concept and a prudent investment portfolio.

Before discussing further what some of the specific Alaskan investments could be to fit within this "Trust" or "Savings-Income" approach, it should be pointed out that there has been for some time confusion and conflict over what should be done with the earned-income of the Permanent Fund and how our choices in regard to this income dramatically effect the investment strategy. Presently, goals of the Permanent Fund are described statutorily in A.S.37.13.020 as follows:

1. A corporation (the Alaska Permanent Fund Corporation) should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;
2. the corporation's goal should be to maintain safety of principal while maximizing total return;
3. the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation for purposes designated by law.

One of the purposes designated by law is set forth in the Permanent Fund Dividends Program (A.S.43.23.010-100) which provides that 50% of the income of the Fund earned during the previous fiscal year be deposited for distribution under the program. While the fate of the Dividend Programs remains in the hands of the U.S. Supreme Court, this scheme and ones like it will lead to the inevitability of the Permanent Fund falling into the same trap which has caught a great number of endowments like the Rockefeller and Ford Foundations. These endowments while



increasing in nominal terms have experienced a dramatic shrinkage of real earnings.

Rather than encouraging wise and prudent investments the challenged dividend program could well be a strong incentive to an imprudent investment strategy.

If the "Policy, Purposes, and Findings" contained in section 1, Chapter 21, SLA. 1980 have any validity then the stated policy and purposes could have just as well been achieved by disbursements from the General Fund. As is the case now, when all of the earnings of the fund are paid out of the Permanent Fund rather than being reinvested, the Fund will ultimately suffer substantial erosion of its real principal. Fixed-income instruments continue to dominate the Fund's investment portfolio, but none of that income is reinvested in the Fund. Equity investments could, of course, help to preserve the real principal of the fund. Similarly, if dividends are to be paid out they should be paid out only from the real income of the Fund.

Before deciding to assign any role to the Permanent Fund in helping to provide Alaskans with mortgage money for homes, the beneficial impact of ^{the} home building ^{industry} on all sectors of the Alaska economy should be understood. The purpose of pointing out this beneficial impact is ^{not} to argue that social considerations should prevail over ^a hardnose investment strategy to maximize "return". It is only to say simply that the Permanent Fund like any other source of investment capital also must contribute, in the long run, to a healthy and "relevant" economy. Investment decisions by private institutions, individuals and institutions like the Permanent Fund should result in ^a beneficial and efficient use of resources. For the sake of the health of our economic system, the concept of "return" from investments must include ^{much} more than just ^{the} rate of current



earnings. The concept of return must also include the cost and benefits to ^{all the people} the people over an extended period of time of any investment activity.

Traditionally, home mortgages have been viewed as a long-term investment, when in fact they are, ^{not} at most, ^{they are} a medium-term investment which in Alaska are usually cashed out between the ^{five} ~~first~~ and seventh years.

The basic premise of the Permanent Fund participation in Alaska home mortgages is that there is no conflict between the trust or savings concept and a significant commitment of ^{an} the fund to this type of investment.

The current vitality and activity in the Alaska ^{and we all} economy is, in large part, due to construction activity, over 30% of which relates directly to construction of new homes. ^{home building}

Traditionally, as well as today, new homes benefit Alaska's local economies - they become a good investment for everyone. ^{there is no reason} The impact of new homes on the local economy more than offsets the additional cost for new utility hookups and expanded services.

The construction of 4,000 new homes and apartments generates on the average directly and indirectly 8,000 jobs. The total economic impact of direct construction dollars on the state's economy is over \$650 million. In addition, the spin-off purchases generate almost \$25 million for household goods and services.

There is no reason why the Alaska Permanent Fund could not participate more meaningfully in the interest earnings on Alaska home mortgages (and perhaps equity returns as well).

The following are some of the advantages of an Alaskan Permanent Fund



investment commitment to building homes for Alaskans:

1. These investments are secure, and relative to risk, produce a high rate of income. Typically, it is the biggest and most important investment individual Americans will make. Even in economic downturns it tends to be the very last debt that individuals will default ~~on~~ upon.
2. The rate of return is competitive with any relatively secure medium or long-term investment.
3. This type of investment will build an Alaskan constituency for the Permanent Fund in a more positive way than will the Dividend Program.
4. These investments will have a definite and positive impact on the Alaska economy. Home building means jobs - it puts people to work. The industry not only provides work for the homebuilder and his employees, but also a living for the sub-contractors, the suppliers, the freight handlers, the lenders, the insurance company employees, the realtors, the title company people, land developers, road builders, municipal employees, engineers, architects, surveyors, draftsmen, and the list goes on and on.
5. In balance with other investments, home mortgages are not only a good diversification for the Permanent Fund portfolio, but also would constitute a badly needed diversification of sources of Alaskan mortgage money. Presently, nearly all single family and duplex financing is provided by Alaska Housing Finance Corporation.

Once the Permanent Fund trustees and the legislature determine that the Alaska Permanent Fund should become involved in Alaskan mortgages in a more significant way than it is now, the question then becomes on what basis and to what extent.

There are many new methods of mortgage-financing which may or may not be workable for Alaska. The present ^{situation} disaster in the ^{rest of the} housing industry in the lower 48 suggests that the shared-appreciation or variable rate mortgages have not helped much.



Despite the scarcity of affordable home mortgage ^{money} in the lower 48, home prices in many cities in the U.S. are higher in comparison ^{than the} to Anchorage home prices. ^{We believe} Over the long run, it is the supply of houses and the demand for housing which will have the greatest impact on the price of homes.

While a fixed interest rate for the entire life of ^{the} a mortgage may not be possible, a jump in interest rates during a building season injects a great deal of uncertainty and instability into the market. A jump in interest rates during ^{the current} a building season ^{has created} often eliminates (in accordance with fairly rigid underwriting requirements) people who would otherwise still choose to be home buyers. This makes the builder and developer very cautious in building new homes and increases costs by lengthening the time the higher-rate interim financing must await "permanent financing". Whatever mortgage financing programs the various state funds might be involved in, programs which stabilize interest rates, even if only for a year, would help promote more cost-efficient building.

The Association of Home Builders urges adoption of regulatory and statutory changes necessary to enable the Permanent Fund to become ^a more meaningfully ^{source of} mortgage funds involved in home mortgages. This involvement could take the form of new mortgage instruments such as shared equity and variable rate mortgages (guided and adjusted according to an indexing standard). However, we believe that a revolving loan fund or account within the Permanent Fund could better supply the stability to the housing market while at the same time giving the Permanent Fund a good rate of return.



ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

October 21, 1981

STATEMENT BEFORE THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT FUND

Questions before us today really begin with a definition of the basic goal of the Permanent Fund. With that issue settled, we then must ask how big the fund should be and how it can be managed in a way that meets the goals and encourages public oversight of the Fund, which has been called a potential "fourth branch of government."

Our major points are these:

- * The Permanent Fund was established as a savings account to provide an endowment for the future and it should remain so.

- * It should be big, receiving annual appropriations above the minimum.

- * It should not be transformed into an Alaskan Development Fund. The political pressures for investing in projects of questionable value in the name of supporting the private economy will be too great to resist. The Board is not structured to deal with such pressures. The legislature is and that is where those issues should be considered and decided.

- * Thus, the Board's duty should be exclusively fiduciary not political.

- * The Fund should be managed on a basis that maintains the principal in the face of inflation before any income is dispensed.

- * Policies which give the public a visible link between Permanent Fund Management and public benefits will help ensure fiscal responsibility by both the Board and the legislature.

To embrace the Permanent Fund as an Alaskan Development Fund, we would need answers to two basic questions. Is Alaska's basic economic problem a capital shortage and, if so, is the Permanent Fund the place to turn?

Those who suggest an Alaskan Development Fund model for the Permanent Fund begin with the concern we all share for a healthy economy here in Alaska. The fundamental question is what, if anything, the state can and should do to promote a healthier economy? Ironically, proponents of "alaskanizing" the Permanent Fund have failed to learn the lesson trumpeted from Washington D.C. every day now. If just throwing money at social problems doesn't work, why will throwing capital at economic problems work any better?

Whether there is an Alaskan capital shortage is still under debate, but the second issue is more straightforward. Even if there is a capital shortage, the Permanent Fund is not the proper place to turn for Alaska's capital needs.

First, it's not necessary. The Fund by constitutional mandate receives 25% of all royalties, which works out to about 10% of total state revenues. There are quite simply tremendous resources outside the Permanent Fund available for ending any Alaskan capital shortage. To turn to the Permanent Fund to end any capital shortage is to say that having 90% of state revenues available is not enough to deal with whatever capital shortage exists. Is the shortage that drastic? Does a wise response to any shortage there is require so much capital so soon?

Second, ^{the idea of...} it's inconsistent with the intent of the Fund. As the House Special Committee on the Permanent Fund reported after extensive public hearings and consultation with experts:

The main goal of the permanent fund is permanence; what is, the fund's primary purpose is to preserve the money put into it. This dictates that investment risk be minimized, that permanent fund investments be as secure as possible.

Second, fund investments must produce income the committee decided that permanent fund investments must meet market rates and terms to insure, insofar as possible, their security and ability to produce income....

In making these decisions the committee realized that it was ruling out many types of investments, including highly speculative and subsidized investments. It also realized, however, that the permanent fund is only one of several financing vehicles available to the state and that it was unnecessary, as well as unwise, to try to design a permanent fund to do all things.

Wise policy and simple prudence dictate that the state use different tools to achieve different goals. To provide an endowment for the future, use the Permanent Fund. To provide loan monies, use the general fund. To provide money for capital improvements, use the capital budget. The capital budget could be funded by a constitutionally dedicated source such as Commonwealth North, has proposed. But the purpose of the Permanent Fund should not be subverted by changing the investment list to disguise state spending.

Third, it is ironic that some groups which are set to turn the Permanent Fund to their own preferred uses are simultaneously calling for a limit on state spending. Support for a spending limit is a recognition that there are revenues in excess of current needs, revenues which might otherwise be wasted due to simple political pressures. What should be done with those excess revenues? The House Special Committee on the Permanent Fund found that the public viewed the Permanent Fund "as a depository for mineral revenues in excess of current state needs." Many of the proposed uses of the Permanent Fund are basically schemes for spending state money without calling them "spending." If one agrees that there are revenues in excess of current state needs, (hence the need for a spending limit), how can one justify using the Permanent Fund for further spending?

Fourth, the Permanent Fund is not structured to manage investments like those proposed for an Alaskan Development Bank. The impressive list of special interests here today hoping to meet some of their perceived needs, the Permanent Fund should be a warning signal. Serving special interests with Permanent Fund investments would be disastrous. To complain about the isolation and the lack of scrutiny of the legislative process in Juneau. Delegating a legislative function to the Permanent Fund Board of Trustees, only worsens the public's ability to hold its government accountable.

The circumscribed financial investments now allowed help remove the Trustees from politics. Changing the investment list to a development

bank model throws the Board in the midst of politics with little accountability. The Board's duty should continue to be fiduciary not political. A circumscribed investment list should be maintained, ^{however} ~~but~~ that does not mean that the present list could not be broadened and still be consistent with prudent management. We do not feel we can comment on the relative risks of various investments. We only urge that relatively low risk be a criterion in portfolio selection.

With respect to ~~another~~ other issues, there has been concern about the Fund's ability to keep ahead of inflation. The Permanent Fund is funded by irreversibly depleting one of the world's most profitable investments--petroleum in the ground. If the Fund is to be an endowment to future generations of Alaskans, the legacy we give them should reflect the opportunity they lose by our actions. The Board should endo. setting a target real rate of return and endorse a policy that at minimum conserves the principal of the Fund after inflation.

A final issue concerns the accountability of the Fund's Board and of state policy-makers in general. If the public sees a clear link between the size and management of the Permanent Fund on the one hand and benefits to the public on the other, the public will want to ensure fiscally responsible policies by both the Fund's Board and state policy-makers. And if the public starts howling, both the Board and state leaders will start listening.

The Fund we hope will have income beyond that required to maintain the real value of the principal. That income should be used in a way that provides the public a clear link between their benefits and management of the Fund (including its size).

We are not prepared to comment fully on the relative merits of Permanent Fund Dividends versus endowing certain state expenditures. However, any policy that sets out a greater link than is now evident will help the public enforce fiscal accountability on the Board and public leaders.



October 22, 1981

Mr. Elmer Rasmuson, Chairman
Board of Trustees
Alaska Permanent Fund Corporation
Pouch SB
Juneau, Alaska 99811

Dear Sir:

Thank you for this opportunity to suggest some direction on the important policy decisions before you today.

We encourage you to suggest to the governor that the range of allowed investment opportunities be expanded. Specifically we feel that at least 3 areas should be included as approved investments: adjustable rate mortgages, improved real estate, and common stocks.

It may be important at this point to remind you of our function in loan origination. We issue private mortgage insurance on conventional residential real estate loans, which insure the lender-servicer and investor in the mortgage. Today most of the loans we insure are sold to AHFC, although some are purchased by other secondary markets including the Permanent Fund. We do provide insurance for adjustable rate mortgages. We prosper when excellent quality conventional loans are made, but frankly it makes no difference to us if the ultimate holder is the Permanent Fund or some other entity.

I will restrict my thoughts in this letter to addressing the items we feel you should consider before making a recommendation that the investment opportunities be expanded in the area of adjustable rate mortgages. I have discussed this topic with the senior officers of Republic Mortgage Insurance Company. We all reviewed copies of the Permanent Fund enabling legislation, the last four months financial statements, and all appropriate regulations and guidelines. Included in these meetings were members of the secondary

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ALASKA MORTGAGE ASSURANCE

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October 22, 1981

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marketing department, who arrange the purchase and sale of numerous mortgages and portfolios on an ongoing basis. We reviewed the following advantages of investment in adjustable rate mortgages indicated by the Chairman of the Fund recently, and we agree with them:

1. This program buys individual mortgages rather than bonds, and deals with exiting lenders and servicers.
2. It ensures a consistent flow of mortgage money that the builders, agents, and lenders can count on.
3. It is not a subsidized rate, but a fair rate, because of an interest rate cap which limits increases or decreases to 2 percent per year.
4. It conforms to the "prudent man" rule.
5. It has reasonable inflation protection.
 - a. If the mortgage contains the "due on sale" clause, the life of Alaskan mortgages may well get back to the historical 7½ year period.
 - b. With adjustable rates, the investment return tracks with the market.
6. It is fair to all Alaskans.
 - a. There need be no dollar limit on the mortgage.
 - b. It could be used to extract equity, finance rental housing and refinance homes. If there should be a demand for this money greater than the fund formula allows, preference could be given to new, owner-occupied housing.

We note two additional advantages and two disadvantages for your further consideration.

ADDITIONAL ADVANTAGES

1. Selection of an index closely tied to inflation would allow these funds to be invested without the need for any significant management on the part of the Fund. This could be an extremely stable core of investments for the Fund.
2. Every borrower under this program has a vested interest in reducing inflation, since the payment varies downward in times of reduced inflation.

DISADVANTAGES

1. In Alaska, as long as some subsidy exists for relatively lower priced homes through the current AHFC programs, the loans submitted to the Permanent Fund will probably be on the more expensive homes. Less expensive loans can readily be acquired, but probably not from within Alaska at this time.
2. Mortgages insured by private mortgage insurance companies are reasonably safe investments, but do not carry the benefit of guaranty by the Federal Government through their VA and FHA programs.

We believe the advantages of investing in ARMS should be pursued and the following legislative or regulatory changes adopted:

October 22, 1981

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ADJUSTABLE RATE MORTGAGE LOANS.

Under AS 37.13.120 (i) the corporation will, in its discretion, purchase insured conventional residential loans which bear interest at rates to be adjusted annually or otherwise as deemed by the corporation to be in their best interest under the following provisions:

1. the loans must be for one to four unit dwellings, and
2. the loan-to-value ratio must be no more than 90 percent for one-to-four unit owner occupied dwellings, and 80 percent for non-owner-occupied dwellings.
3. The mortgage must, under AS 37.13.120 (g) (16), be insured by a private mortgage insurance corporation which is authorized to do business in Alaska and is an approved Federal National Mortgage Association private mortgage insurer. The minimum coverage shall be those minimum requirements established by Federal National Mortgage Association.
4. The mortgage shall be tied to an index widely published, readily verifiable to the borrower, and approved by the Federal National Mortgage Association.

We believe that an index can be selected that will suit the Permanent Fund very well, and will return a true net yield above inflation.

We would like to discuss the merits and weaknesses of several indices in a work session of the Permanent Fund or the Fund's staff if this is desired by any member of the Board, and we offer the attendance of our secondary market staff and senior officers of RMIC at such a session.

October 22, 1981
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In conclusion, we have reviewed the existing investment opportunities available to the Fund, and we recommend the expansion in at least 3 areas: adjustable rate mortgages, improved real estate, and common stock.

The adjustable rate mortgages will allow your funds to be invested with very modest management requirements on the part of the Fund, and should yield a true return greater than inflation.

Thank you for your consideration of these items, and we look forward to working with you in the future.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. P. Bannon".

ALASKA MORTGAGE ASSURANCE
ROBERT P. BANNON

RPB/paw

Copies: All Board Members
Jim Rhodes
Sen. Arliss Sturgelewski

FREE

Federation's Role in our Enterprise Economy

NOVEMBER 11, 1981

RECEIVED
NOV 23 1981

ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION
JUNEAU

CHAIRMAN AND MEMBERS OF THE BOARD OF TRUSTEES
OF THE PERMANENT FUND
ALASKA PERMANENT FUND CORPORATION
POUCH SB
JUNEAU, ALASKA 99811

DEAR SIRs:

WE ARE PLEASED TO PRESENT THE ATTACHED POSITION PAPER FOR YOUR CONSIDERATION. AS YOU KNOW, WE EXPRESSED SOME OF OUR CONCERNS REGARDING THE USE AND INVESTMENT OF THE PERMANENT FUND AND ITS EARNINGS AT YOUR OCTOBER 22, 1981 MEETING. FOLLOWING EXTENSIVE RESEARCH AND DISCUSSION OF MATERIAL FROM NATIONAL, STATE AND LOCAL SOURCES, THIS ATTACHED PAPER ADDRESSES THOSE CONCERNS AND PROPOSES SOME CONSTRUCTIVE SUGGESTIONS REGARDING THE INVESTMENT OF ALASKA'S NEW FOUND WEALTH.

WE WOULD BE PLEASED TO DISCUSS OUR IDEAS WITH YOU. WE WILL MAKE A COPY OF THIS REPORT AVAILABLE TO EACH LEGISLATOR.

RESPECTFULLY SUBMITTED,

PRISCILLA THORSNESS AND MYRLE NECRASON, CHAIRPERSONS
FREE ENTERPRISE AND ECONOMIC DEVELOPMENT SUB-COMMITTEES

MEMBERS:

PAMELA LAMBE
SARA SCHIERHORN
MARYLIN PAINE
DOROTHY DAVENNY

MARLENE RAPP
CISSIE BRAUND
MARIANNE HELMS
EVELYN LYON

FREE COMMITTEE
ANCHORAGE WOMAN'S CLUB

THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT FUND HAS REQUESTED THE PUBLIC TO EXPRESS THEIR FINDINGS AND OPINIONS CONCERNING THE INVESTMENTS OF THE PERMANENT FUND AND ITS EARNINGS. SPECIFICALLY THEY ASKED FOR INPUT ON QUESTIONS SUCH AS:

HOW LARGE SHOULD THE PERMANENT FUND BE?

WHAT SHOULD BE THE INVESTMENTS OF THE FUND AND WHERE?

WHAT SHOULD BE DONE WITH THE INCOME OF THE FUND?

THE BOARD HAS EXPRESSED A CONCERN THAT THE TYPES OF INVESTMENTS ARE TOO LIMITED TO RETURN A SUFFICIENT MARGIN OF PROFIT TO HEDGE AGAINST INFLATION. THE TRUSTEES SHOULD APPOINT AN INVESTMENT ADVISORY COUNCIL CONSISTING OF NATIONAL AND INTERNATIONAL CONSERVATIVE FINANCIAL LEADERS WHO COULD BID FOR POSITIONS ON THE BASIS OF THEIR PAST PERFORMANCES. WE SHOULD RECOGNIZE THAT THE STATE IS NOT AN EXPERT IN THE WORLD OF FINANCE AND THAT THE PERMANENT FUND IS LARGE ENOUGH TO WARRANT OBTAINING EXPERT ADVICE ON INVESTMENT STRATEGY. THE FUND SHOULD NOT BE INVESTED ENTIRELY IN ALASKA, FOR WE BELIEVE THE PERMANENT FUND SHOULD NOT BECOME THE BASIS OF THE ALASKAN ECONOMY.

WE HAVE COME TO THE CONCLUSION THAT ANY DISCUSSION OF THE PERMANENT FUND MUST FIRST ADDRESS ALL THE OIL WEALTH, AS THIS IS THE SOURCE FOR THE FUTURE NEEDS OF OUR STATE. AT PRESENT, ONLY 10% OF THE STATE REVENUES GOES INTO THE PERMANENT FUND, PLACING 90% INTO THE GENERAL FUND. THE STATE IS CURRENTLY SPENDING LARGE AMOUNTS ON PROJECTS WITH NO REAL PLAN FOR THE FUTURE. UNLESS THE STATE PLANS FOR THE FUTURE, THIS REMAINING 90% MIGHT BE SPENT ON UNWARRANTED AND/OR EXTRAVAGANT PROJECTS AND SPIRALING STATE BUDGETS. THIS COULD RESULT IN DEPLETION (BY LEGISLATIVE INVASION) OF THE REMAINING 10% IN THE PERMANENT FUND.

IN OUR OPINION, THE STATE MUST CONSTRUCT A LONG RANGE PLAN FOR BUDGET, CAPITAL IMPROVEMENT AND INFRASTRUCTURE NEEDS, AND STATE INVOLVEMENT IN ENCOURAGING ECONOMIC DEVELOPMENT. THIS PLAN SHOULD INCLUDE SHORT AND LONG TERM PROJECTIONS. THE STATE

MUST THEN REVIEW REVENUE CAPABILITIES TO ENSURE THE VALIDITY OF THESE PROJECTIONS.

CRITICAL TO THIS PLAN IS ESTABLISHING A LIMIT TO STATE SPENDING. IF THE STATE BUDGET CONTINUES TO ESCALATE AT ITS PRESENT RATE WE WILL SOON FIND OURSELVES WITHOUT SUFFICIENT FUNDS. WE BELIEVE THE FIRST ORDER OF BUSINESS FOR THE PRESENT LEGISLATURE SHOULD BE TO REDUCE THE 1982 BUDGET, BRINGING IT INTO ACCORDANCE WITH THE SPENDING LIMITATION LEGISLATION.

AT PRESENT, THE EXCESS FUNDS FROM THE GENERAL FUND REVENUES THAT ARE NOT SPENT HAVE BEEN APPROPRIATED TO THE PERMANENT FUND. WE RECOMMEND THAT THESE EXTRA FUNDS SHOULD BE SET ASIDE IN AN INVESTMENT FUND SIMILAR TO THE PERMANENT FUND THAT COULD BE USED FOR CAPITAL IMPROVEMENTS AND INFRASTRUCTURE PROJECTS. (SEE ATTACHED CHART)

WE WOULD PROPOSE THAT A CONSTITUTIONAL AMENDMENT BE TAKEN TO THE VOTERS TO ESTABLISH A CAPITAL IMPROVEMENTS AND ECONOMIC INFRASTRUCTURE FUND. THE PERMANENT FUND RECEIVES "25% OF ALL MINERAL LEASE RENTALS, ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER AS 38.05.180 (f) AND (g), AND FEDERAL MINERAL REVENUE SHARING PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED ON OR BEFORE DECEMBER 1, 1979 AND 25% OF ALL BONUSES RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED ON OR BEFORE FEBRUARY 15, 1980" AND 50% OF THE ABOVE SUBSEQUENT TO THE DATES INDICATED). WE WOULD PROPOSE THAT THE OTHER 75% AND 50% RESPECTIVELY OF THESE REVENUES BE PLACED IN THIS CAPITAL IMPROVEMENTS AND ECONOMIC INFRASTRUCTURE FUND. WE WOULD ALSO PROPOSE THAT ALL CAPITAL PROJECTS OVER \$1 MILLION BE FUNDED BY THIS FUND. INFRASTRUCTURE PROJECTS SHOULD BE BUILT ALLOWING EACH OF THE JURISDICTIONAL DISTRICTS ONE LARGE CAPITAL IMPROVEMENT PROJECT COMPLETED BEFORE ANOTHER DISTRICT QUALIFIES FOR A SECOND PROJECT.

THE FUND WOULD BUY BOTH GENERAL OBLIGATION AND REVENUE BONDS FROM THE STATE FOR USE IN CAPITAL IMPROVEMENT AND INFRASTRUCTURE PROJECTS. GENERAL OBLIGATION BONDS WOULD FUND CAPITAL

PROJECTS SUCH AS ROADS, BRIDGES, ETC. WHICH DO NOT GENERATE REVENUE; REVENUE BONDS WOULD FUND THE LARGE INFRASTRUCTURE PROJECTS SUCH AS RAILROADS, DAMS, AIRPORTS, ETC. WHICH WOULD BE EXPECTED TO PAY FOR THEMSELVES. THE FUND MIGHT ALSO BUY CORPORATE BONDS FOR INVESTMENT IN LARGE PRIVATE PROJECTS (PIPELINES, ETC.). WE MUST CAUTION THAT WE DO NOT WANT THE STATE TO COMPETE WITH OR REPLACE FREE ENTERPRISE. HOWEVER, CERTAIN PROJECTS ARE SO LARGE IN SCOPE THAT THE PRIVATE SECTOR HAS DIFFICULTY COMING UP WITH THE NECESSARY CAPITAL TO FUND THE PROJECT. WE BELIEVE THE STATE COULD HAVE A ROLE IN THESE TYPES OF PROJECTS WHICH WOULD BENEFIT ALL ALASKANS. THE USE OF THE BONDING INSTRUMENT IS IMPORTANT. THOUGH THE STATE HAS THE FUNDS TO APPROPRIATE THE DOLLARS FOR A PROJECT, THE BONDING SYSTEM FIRMS UP THE ECONOMIC RESPONSIBILITY FOR PROJECTS AND REQUIRES VOTER APPROVAL.

THIS PORTION OF THE ROYALTY AND BONUS REVENUES ALLOCATED TO A CAPITAL IMPROVEMENT AND ECONOMIC INFRASTRUCTURE FUND WILL ENSURE PERMANENT BENEFITS TO ALASKA. A FUND OF THIS TYPE IS OUR HEDGE AGAINST INFLATION; BUILDING CAPITAL THAT WILL BENEFIT THE STATE 50 TO 100 YEARS FROM NOW. THE REVENUE GENERATED THROUGH SEVERANCE, CORPORATE INCOME AND OTHER TAXES SHOULD BE MORE THAN SUFFICIENT TO PROVIDE FOR THE DAY TO DAY GOVERNMENT OPERATIONS WITHIN A SPENDING LIMITATION BUDGET.

THE PERMANENT FUND SHOULD REMAIN AS ORIGINALLY DESIGNED, WITH THE FOLLOWING SUGGESTED CHANGES;

1. THE REVENUE EARNED ON THE PERMANENT FUND INVESTMENTS SHOULD BE REINVESTED IN THE PERMANENT FUND. IT SHOULD NOT REVERT TO THE GENERAL FUND AS THE LAW NOW PROVIDES.

2. CERTAIN CHANGES SHOULD BE MADE IN THE STRUCTURE OF THE BOARD OF TRUSTEES. CURRENTLY, THE BOARD OF TRUSTEES IS MADE UP OF THE COMMISSIONER OF REVENUE, TWO OTHER COMMISSIONERS AND THREE MEMBERS FROM THE PRIVATE SECTOR WHO HAVE EXPERTISE IN FINANCE, ALL APPOINTED BY THE GOVERNOR. THIS STRUCTURE PLACES TOO MUCH CONTROL IN THE HANDS OF THE GOVERNOR. WE PROPOSE THE BOARD BE CHANGED TO INCLUDE THE COMMISSIONER OF REVENUE AND FIVE MEMBERS OF THE PRIVATE SECTOR, WHO HAVE LONG STANDING

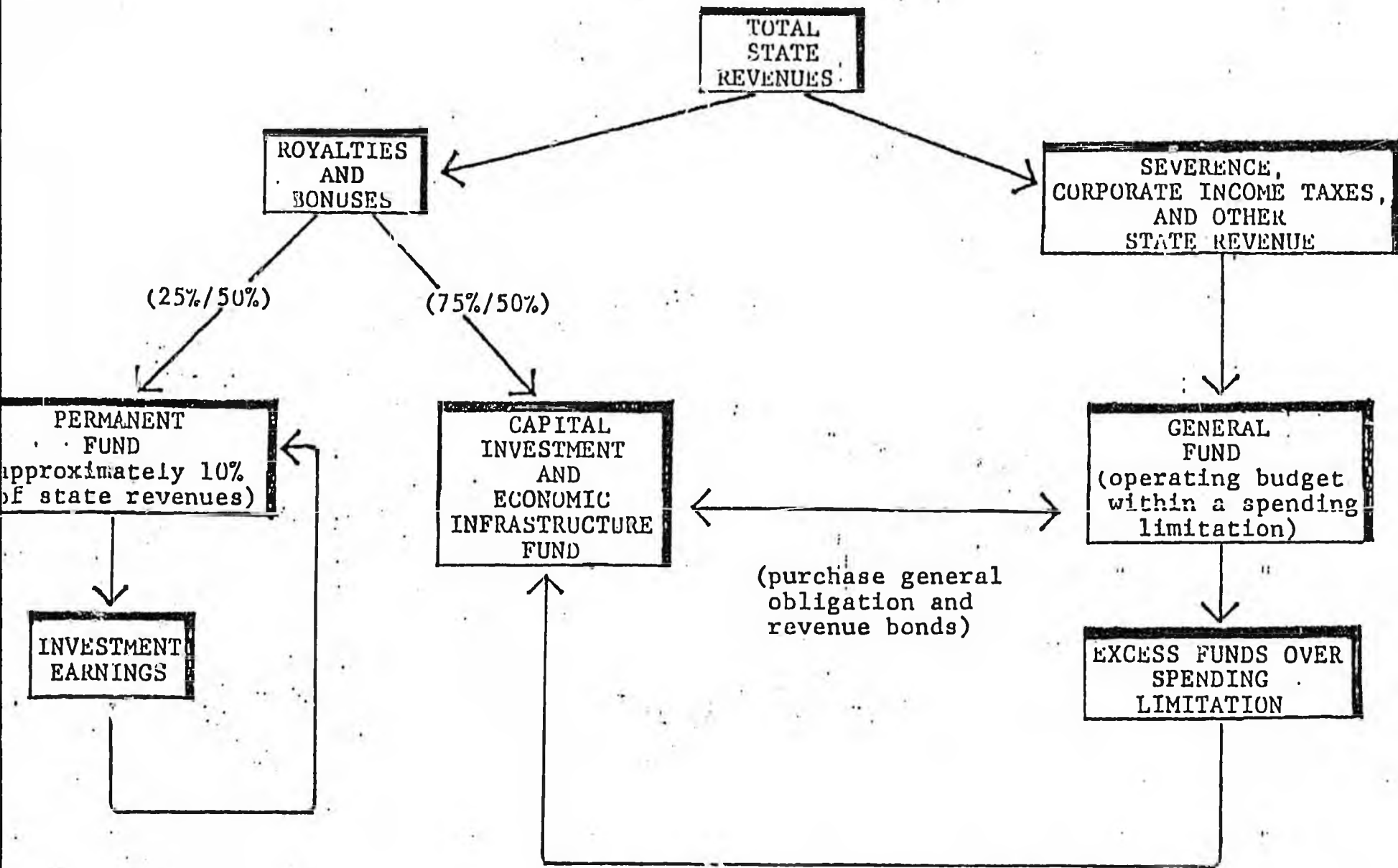
SOLID FINANCIAL BACKGROUNDS, TO BE APPOINTED BY THE GOVERNOR AND APPROVED BY THE LEGISLATURE. IN ADDITION, THE COMMISSIONER OF REVENUE ALSO SHOULD BE CONFIRMED BY THE LEGISLATURE. THESE INDIVIDUALS WOULD SERVE STAGGERED TERMS.

CERTAIN SUGGESTIONS HAVE BEEN MADE REGARDING THE USE AND INVESTMENT OF THE PERMANENT FUND AND ITS REVENUES. WE DO NOT BELIEVE THAT CASH PAYMENTS SHOULD BE MADE TO THE PEOPLE OF ALASKA. THIS TYPE OF "SOMETHING FOR NOTHING" DISTRIBUTION WHERE THERE HAS BEEN NO RISK INCURRED OR WORK PERFORMED IS NOTHING MORE THAN A FORM OF WELFARE AND PROBABLY WILL DO LITTLE TO INSTILL MUCH INTEREST IN THE WORKINGS OF THE PERMANENT FUND BY THE RECIPIENTS. MORE IMPORTANTLY, CASH DIVIDENDS WILL ATTRACT THE ATTENTION OF OTHER STATES TO THE DETRIMENT OF ALASKA'S ECONOMY, CAUSING "OUTSIDERS" TO COVET ALASKA'S OIL WEALTH.

THE PERMANENT FUND SHOULD NOT BECOME INVOLVED IN ANY REAL ESTATE INVESTMENTS, IN CORPORATE STOCK OWNERSHIP OR IN ANY OTHER INVESTMENT THAT COMPETES WITH FREE ENTERPRISE.

THE PERMANENT FUND INVESTMENTS SHOULD YIELD THE MAXIMUM RETURN WITHIN THE CONSTRAINTS OF THE SCOPE OF THE INVESTMENT MARKET ESTABLISHED BY STATUTE. THE STATE SHOULD NOT USE THIS FUND TO SUBSIDIZE THE HOUSING MORTGAGE MARKET OR INVEST IN ANY OTHER SUBSIDY PROGRAM

WE WOULD APPRECIATE SERIOUS CONSIDERATION BE GIVEN TO OUR RECOMMENDATIONS FOR CHANGE BY BOTH THE BOARD OF TRUSTEES OF THE PERMANENT FUND AND THE PRESENT MEMBERS OF THE STATE LEGISLATURE.



2 MR. ERICKSON:

3 Certainly, Mr. Chairman. Mr. Chairman, Trustees, Legislators.
4 This is the first time I've had an opportunity to talk to you
5 and it may be a little presumptuous but I'd like to ask you
6 a favor. I'd like to ask you when you go home tonight or
7 some other time when you have a few moments to sit down and
8 put on a piece of paper your perceptions of what we who live
9 here now in Alaska should try to achieve in this State in the
10 next five years, in the next ten years. Just make a list.
11 You might want to put down elimination of poverty. You might
12 want to put down the restraint of government growth. I know
13 one thing that would be on my list would be the development of
14 an economy for the State of Alaska that will sustain itself
15 after the oil is gone so that my children and my grandchildren
16 will be able to live here and have the kind of good life that
17 I think I've had in Alaska. After you've made that list, I'd
18 like you to write the number \$37,000 alongside of it and I'd
19 like you to ask yourselves how many of these goals or these
20 priorities would not be achieved if every one of the 100,000
21 Alaskans who are here now received a check tomorrow for
22 \$37,000. The number \$37,000 doesn't come out of a hat. It's
23 the present value, discounted at 4 percent in eliminating
24 inflation, of the 75 percent of Prudhoe Bay royalties that are
25 not dedicated to the Permanent Fund. In effect, if the State

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1 were to give every Alaskan their share, their undedicated
2 share, of Prudhoe Bay royalties it's one measure of what that
3 piece of paper, that share, might be worth. One might ask
4 why am I bringing this idea which really is peripheral in a
5 sense to the Permanent Fund before you. Well, one reason is
6 that the notion really came home to me as the consequence of
7 reading the papers of Professors Coffman and Fry and Gordon
8 and Arrow which were commissioned by you and which seem to me
9 to make a compelling, albeit, very theoretical argument for
10 direct distribution of Permanent Fund -- or of all the oil
11 revenues that are being received by Alaska and financing of
12 government by taxing those revenues back to the extent that
13 the people of Alaska were willing to allow that to occur. I
14 think there's another reason why it's important for the
15 Trustees of the Permanent Fund to be concerned about this
16 kind of broad social issue. That is, as you are well aware,
17 and as you've heard for months now, the notion of saving the
18 Permanent Fund is, if not under attack, at least being sniped
19 at. And I think that difficulty, that dissanctity of the
20 Permanent Fund, and your ability to act as Trustees in the
21 real sense of the word, is going to be challenged by the ever
22 increasing needs of government growth and the special subsidies
23 that people have come to expect from our government and,
24 perhaps, from unexpected declines in oil revenues which may
25 make it doubly important to consider these kinds of proposals

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1 that are really already before you in the papers that I've
2 just mentioned. Now, as I said, the idea of direct distribution
3 is theoretically very appealing but it hasn't received what
4 we might call the flushing out that would be necessary to
5 really stimulate public discussion of the idea. Let it be
6 understood that I'm not suggesting that this is necessarily
7 the right way to go and I'm not suggesting that the Permanent
8 Fund Trustees should, at this point, endorse such an idea.
9 But what I am suggesting is that you have raised a extremely
10 exciting issue, I think, in commissioning those papers that I
11 referred to earlier and that it behooves you to follow up on
12 that and to answer some of the practical questions that that
13 kind of proposal raises. I think the way that you might
14 consider doing this is to commission a study by a nationally
15 known accounting firm, Peat, Marwick or Ernst and Ernst or
16 Arthur Anderson, and ask them to look at the kind of questions
17 that this proposal raises. For example, they might look at
18 the families in Texas who suddenly got rich back in the 1920s
19 as a consequence of oil being discovered on their land. Dirt
20 poor farmers. And they might ask have those families stayed
21 -- have those households stayed rich or was it an ephemeral
22 thing that drifted away? They might ask the question, how
23 will this money affect immigration and outmigration from
24 Alaska and to Alaska? I would note that one of the real
25 advantages of this one-shot kind of distribution is that it

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1 doesn't create the kind of incentives to move into the State
2 that one finds with the dribbling-out approach to Permanent
3 Fund dividends. I would also note that there's a qualitative
4 difference between giving people \$1,000 a year or even \$2,000
5 a year and giving them a real lump of capital upon which
6 private wealth can be established. Now, I have a good friend
7 who, when I discussed this idea with him, said -- told me a
8 story, said -- this friend is from a family that is quite
9 rich, apparently, and he and his brothers and sisters
10 inherited a great deal of wealth and he said, you know, Gregg,
11 that's just immoral. I have seen what money that you didn't
12 have to work for did to my sister. And I thought about that
13 and I thought, well, you know, he is right. There is a risk
14 in giving people these kinds of resources who maybe haven't
15 had the opportunity to learn how to deal with them. But you
16 know, I'm much more willing to accept that risk than I am
17 to continue down the path that we're going right now in which
18 the -- you know, Mr. Chairman, you spoke about tradition a
19 little bit ago and it occurred to me that the traditional
20 image of what Alaska is all about has been the rugged
21 individualist, the fisherman, the prospector, the pioneer.
22 Well, that image continues to be the image of Alaska outside
23 but for those of us that are here we are becoming aware that
24 the real Alaskan is becoming the lobbyist and the special
25 pleader. Now, you've heard a lot of compelling arguments, I

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1 think for things that might be classed as special pleading
2 and I think that the people who have spoken to you have a
3 point and their point is that that wealth that supposedly
4 belongs to all of us isn't doing the people of this State much
5 good and they're trying to grasp for ways to find that -- how
6 that benefit which they see there can get to the people. I'm
7 not sure that the study that I mentioned would achieve --
8 would result in any kind of consensus but I am sure that the
9 arguments for direct distribution are so compelling in their
10 theoretical formulation that it simply would be a tragedy
11 not to look into the practicalities of the issue and there are
12 a great many. I'm through.

9 PROFESSOR TUSSING:

10 I suggested he go in my place because I had to go for a few
11 minutes but I think the way the discussion progressed was
12 rather than giving my prepared statement it might make more
13 sense just to take off from where he left off and rather than
14 beginning at the beginning, begin at the end by saying first
15 that I don't see any particular urgency for revising the
16 Permanent Fund statute or the way in which it's governed.
17 The money that has been dedicated to the Permanent Fund is
18 not needed for any urgent instate use now. The General Fund
19 as it exists after the \$1.8 billion appropriation and after
20 the statutory minimum is the biggest per capita pork barrel
21 in any democratic political jurisdiction in the world and
22 if the various social causes, the various programs for State
23 capital spending can't find enough money in that pork barrel,
24 I think there's something very, very wrong. And there are a
25 number of things that are very, very wrong. But not with the

1 Permanent Fund - not with the Permanent Fund. I'd deal with
2 two of the -- two criticisms of the Permanent Fund concept
3 or the way in which it's managed and try to do it very
4 briefly. First, the notion that investment in interest-
5 bearing securities is particularly vulnerable to inflation,
6 that the investments don't keep up with inflation and I think
7 that's purely a -- that's the viewpoint of a speculator rather
8 than an investor. Over the long haul safe investments do
9 yield a real rate of return above inflation. Safe invest-
10 ments do not yield 8, 10, 12, 15, 25 percent above inflation
11 but they do replace the erosion that takes place as a result
12 of the reduction in the value of money and those who make
13 this criticism have been looking at the experience of the
14 '70s where the monetary authorities in the United States
15 were inflating the money supply at such a rate that we did
16 have, for a period of time, eight to ten years, negative real
17 interest rates. And those who put their money into ten-year
18 interest-bearing securities back in the early 1970s did lose, as I
19 say, that's a speculator's point of view. In the long run,
20 these securities do maintain their value. And at -- right
21 now the interest rates show the highest spread above
22 inflation rates at any time since the great depression. This
23 is above all the time in which there's an enormous opportunity
24 to make a killing in the bond market and the idea that the
25 criticism that the earnings aren't sufficient is very badly

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1 timed. First, there's no urgency. There's nothing, no
2 demand that's not being served on the State's money that's
3 so urgent that it requires a raid of the Permanent Fund and,
4 second, there is an opportunity for the Permanent Fund not
5 only to maintain its value but to make substantial earnings
6 now. The whole notion that it should be speculative -- that
7 we -- criticising the management of the money from the
8 speculative point of view leads to the kind of situation we
9 had with the 1969 bonus money where the State Department of
10 Revenue put it into the stock market at the very top of a
11 ten year cyclical peak and lost a couple hundred million
12 dollars within a couple months.

13 SENATOR STURGULEWSKI:

14 No. \$14 million.

15 PROFESSOR TUSSING:

16 Fourteen million, was it?

17 MR. RASMUSON:

18 We're trying to narrow the parameters here a little bit.

19 PROFESSOR TUSSING:

20 And if the State had really put its money into gold at the
21 time that most people thought that it had put it into gold,
22 there would have been enormous loss. I was aware that that
23 move was taken at the very top of the gold price cycle too.
24 Anyway, the -- in principle, I believe the Permanent Fund
25 ought to be able to invest in equities. In practice, once

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1 that door is opened in Alaska, the pressure to invest on
2 other grounds than strict business grounds is so great that
3 the only way in which the ability to invest in equities
4 would be consistent with prudence was if the law allowed the
5 Permanent Fund to invest in any equity except Alaska equities.
6 And that would probably be harder than maintaining the status
7 quo so I'm in favor of maintaining the status quo and as far
8 as I can tell that the fiscal management of the monies in
9 trust, the fund has been very good to date and the criticisms
10 that are applied to the Alaska -- to the Alberta Heritage
11 Fund are not appropriate in this case. The Permanent Fund --
12 getting back to the last discussion between Chairman and
13 Gregg Erickson. I think the argument for the Permanent Fund
14 and the argument for direct distribution are the same
15 argument. That is that there is -- that legislative appro-
16 priations have no efficiency -- economic efficiency test
17 whatsoever. They're not tested in the market and they tend
18 -- the allocation of funds from the Legislature tends to be
19 determined on a basis of peoples' personal notions -
20 legislators and the people who talk to legislators - notion of
21 what is important. And on a whole series of half-baked and
22 untested theories of economic development. There is no --
23 the value of both the direct distribution and putting the
24 money in the Permanent Fund is that there is at least some
25 market test, some efficiency test, of how the money is disposed

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1 of. The best thing -- I think the biggest contribution to
2 the Permanent Fund -- or one of the biggest contributions to
3 the Permanent Fund and is simply the fact that it prevents the
4 money from being spent now and in answer to Senator
5 Sturgulewski's question, there's probably nothing - there's
6 probably no way of spending this money that enhances the
7 long term viability of the non-oil economy in Alaska. That
8 in effect the money will, on the average, do what the gold
9 from South America did to the Spanish economy, that is create
10 an inflation that devastated it. Spain and Portugal were
11 the most advanced countries in Western Europe in the 15th
12 century. As a result of the influx of gold and silver they
13 were able to buy everything they needed outside and the gold
14 financed -- gold and silver financed the industrial revolution
15 in England and the low countries. By the time the gold was
16 gone, the -- both agriculture and industry in Spain and
17 Portugal were devastated and they never recovered. We have
18 a similar thing occurring now in some of the oil rich
19 countries. I think the example of Iran which was probably
20 well -- it had the preconditions for the great leap to
21 modernization. It had the kind of infrastructure, it had an
22 entrepreneurial class. It had the preconditions such as many
23 of the countries of East Asia had prior to their leap to
24 industrialization and modernization. The oil money simply
25 diverted it. It went into the government. It diverted not

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1 only the government money itself but private entrepreneurship,
2 talent, and private capital, into those industries that were
3 chosen by the government and those that had the favor of the
4 particular factions in the bureaucracy, factions in the royal
5 family. And it's left really nothing. It survived the demise
6 of the Shah and the serious reduction of the country's oil
7 income. The same thing is happening in Mexico today. Mexican
8 oil income is going into the government sector. The
9 government is building steel mills and petrochemical plants
10 at much higher cost than they could buy steel or petrochemicals
11 abroad. They're dissipating this money earned by a comparative
12 advantage in producing oil in a -- in industries that have
13 no comparative advantage in Mexico. But a private enterprise
14 in Mexico would postpone for many, many decades because
15 development of small-scale modern agriculture, of small
16 manufacturers that can take advantage of the abundant labor
17 force and the climate and excellent growing conditions in
18 some part of the country would have a far higher rate of
19 return. If that oil money in Mexico went into -- went
20 somehow into directly to the people and allowed -- allowed the
21 people just through their spending to provide a market in
22 Mexico in the villages for more locally produced goods of
23 small industry and agriculture in Mexico the contribution to
24 development would be much greater. What's going to happen in
25 Alaska is that we're going to have a very inefficient

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1 grandiose, socialist economy in which there's a large quasi
2 private sector that depends entirely upon the expenditure of
3 State money for its sustenance and I think the Legislature's
4 direction on hydro is the epitome of this. That we -- the
5 other fallacy I'd like to draw upon is that -- to mention is
6 that the State's provision of services is efficient because -- as
7 compared to the distribution of money because the federal
8 government doesn't get a cut out of it. Now, it is inefficient
9 if you distribute money directly to the people or, for that
10 matter, reduce their taxes -- their State taxes because, on
11 the average, the federal government gets some 30 percent of
12 it. Let's look at the provision of electric power. Talk
13 about public power being cheap. Well -- and the Northwest
14 being an example. Well, public power was cheap in the
15 Northwest because they had the Columbia River and they had
16 very cheap government money. But once that's been exhausted,
17 the public utilities in the states of Oregon and Washington
18 are building nuclear plants that most independent analysts
19 said were unnecessary to serve their demand but these are
20 unregulated, nonprofit enterprises whose main reason for
21 existence is to grow. And they are building some nuclear
22 plants which, if they ever go on stream, will cost more than
23 twice as much as plants of a comparable size and timing built
24 by profit-making private enterprises, by private utilities
25 elsewhere in the lower 48 that had to face a public utilities

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1 commission to justify their rates and had to face the bond
2 market to justify their construction schedules. These are --
3 and so I suspect that Alaska is well on the road to replacing
4 for the railbelt the cheapest thermal power in the whole
5 world except for Kuwait with the most expensive hydro and
6 calling it cheap because the State's going to sink its
7 entire -- its entire oil heritage in this on the theory that
8 this is one way of getting it -- of getting the benefits to the
9 people and having those benefits not taxed away. Well, it
10 isn't going to be cheap and the problem is -- I don't know
11 whether hydro is -- hydro is in principle -- whether Susitna
12 is in principle going to be cheaper than combustion turbines
13 for Cook Inlet Natural Gas. The Legislature has appropriated
14 over a million dollars for Battelle to look at it. I suspect
15 that absent a market test, absent the bond buyers leaning
16 over the shoulder of the power authority seeing that you've
17 got competent project management, that you've got -- that the
18 contractors that are going to complete the project on schedule
19 and reasonably within cost, that this is going to be a
20 fantastic boondoggle, not because there's anything wrong with
21 hydro but because State enterprise that pretends what is very
22 expensive is very cheap is guaranteed to make it even more
23 expensive and to hear -- it's almost -- it's ironic that all
24 this is being pushed by people who consider themselves
25 business conservatives and who are building -- I think in

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1 Alaska probably the most wasteful socialist government in
2 North America simply because there is no efficient way of
3 getting the benefits to the people and that's . . .

4 MR. RASMUSON:

5 Mr. Tussing, I've got to call time because this is why I
6 always urge that there be the discipline of prepared remarks
7 ahead of time. Now, I've got four more people and that four
8 more in an hour, that's fifteen minutes and I know with your
9 excellent presentation here there's going to be some comments
10 by the Legislature. Could you give us five minutes?

11 Legislature? Or do you all agree with Arlon? Mr. Cotten.

12 REPRESENTATIVE COTTEN:

13 Yeah. I'll be real quick here. You started out, Arlon,
14 saying that you didn't think any changes were necessary to
15 the statutes that affect the Permanent Fund. Maybe I
16 misunderstood that. And then you suggested that the invest-
17 ments that -- the fund was receiving more than beat inflation
18 but as you know there's no requirement that we replace the
19 money to the fund so would you continue to say that you don't
20 need any statutory changes or how would you react to a
21 proposal that would require reimbursement of the fund or
22 reinvestment into the fund in that amount that was depreciated
23 by inflation?

24 PROFESSOR TUSSING:

25 Well, I think in principle it's a good idea. Just like in

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1 principle the Trustees of the fund ought to have the option
2 to go into -- I'm very afraid of what happens if you open up
3 the whole question of the statutory structure of the fund
4 that it's going to be very -- I would favor the greatest
5 possible contribution to the fund at this time although in
6 principle I believe that there ought to be a direct distribu-
7 tion, by far the second best is to limit the amount of money
8 available for expenditure in what are probably counterproductive
9 of general and capital programs. So that the easiest way
10 the Legislature simply to handle that is next time make it
11 more than a billion, eight. Make it more than required by
12 the budget limit. Just put everything conceivable into that
13 fund. If the long-term interest of the State that's provided
14 by putting the money into the fund is that the -- since the
15 State expenditures are creating an inflated economy and
16 encouraging the development of capital programs that are
17 going to have to be maintained in the future and basket case
18 industries that couldn't be maintained without the oil money,
19 the more money that goes in the Permanent Fund now, the less
20 the citizens are going to have to be squeezed in taxes to
21 support all these boondoggles after the money that was
22 available for the pork barrel runs out. Putting a lot of
23 money in the Permanent Fund is, in a sense, the other side of
24 the coin to these capital programs and these programs to
25 subsidize infant industries as it means that the people

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1

-- the shock, the landing is going to be not quite as hard

2

when the oil money does begin to diminish.

The Three Basic Policy Questions
Concerning the Permanent Fund

Remarks Made Before the Board of Trustees
of the Alaska Permanent Fund
October 22 1981

Scott Goldsmith
Associate Professor of Economics
Institute of Social and Economic Research
University of Alaska

A. Prologue

There are three policy questions concerning the Permanent Fund, each of which I would like to address in turn. They are as follows:

How much should we save?

What investments should our savings go into?

What shall we do with the income from our investments?

First, however, I want to touch on the more fundamental question concerning the wealth currently controlled by the state. Should the State of Alaska be a wealth holder at all, or should all revenues not currently necessary to fund government be distributed to current Alaskans? Several economists have appeared before this group suggesting that the best thing to do with our wealth would be to distribute it immediately and completely to the private sector. One cannot argue that this course of action is best for current Alaskans since it maximizes individual freedom of choice. This may not be the best course of action for Alaska though because complete privatization of the wealth would result in most of the wealth immediately leaving the state. Benefits would go to individuals, but not necessarily to Alaskan individuals.

If Alaska is more than the sum of individuals who are currently residents, then what is "best" for individuals may not be what is best for Alaska. The best solution may be for the state to save the majority of our wealth and use the earnings generated from that wealth to create a steady, stimulative force for economic growth and development for generations to come.

B. How Much Should We Save?

It is easier to deal with this question if we stand it on its head and ask how much we want to spend--not only this year but also in future years. From that, we can calculate how much we need to save to meet our spending target. Obviously, the initial spending decision would need to be changed if it did not leave enough savings for future years. Back-of-the-envelope calculations suggest that we should be putting a much larger proportion of our current income into savings than the 10 percent that now goes into the Permanent Fund.

A simple example should demonstrate this. The state gets virtually all of its revenues from Prudhoe Bay petroleum production activities. ^{and} In a very real sense, there is a bank ^{up there} on the North Slope--The First National Bank of Prudhoe Bay--and the State of Alaska has a major account there, ^{which is} A rough estimate of the balance in the state's account made last spring was \$80 billion. Today, its value ^{may not be what it was} might be only \$70 billion in 1981 dollars due to the softening of the world oil market. Each year, the state makes a forced ⁱⁿ withdrawal from its bank account as it collects the various petroleum-related revenues and royalties. Some of this forced withdrawal is interest, but principal is taken as well.

If we adopted the conservative rule, "never spend principal," we would have a very simple spending rule as well as a rule for determining how much of our petroleum revenues should be set aside in the Permanent Fund each year. ^{assuming} With a 2 percent real rate of return on the

bank account
\$70 billion, \$1.4 billion in 1981 dollars could be spent annually. We could spend that *\$1.4 billion every* amount each year *in* and still have \$70 billion in the bank. Any petroleum revenues over and above \$1.4 billion would be saved in the Permanent Fund. In time, of course, the oil would be all gone and the principal would be *in* the Permanent Fund, which would amount to \$70 billion in 1981 dollars. At our current savings rate of 10 percent, we are clearly eating into *that* principal.

Now There is one important argument against the "never spend principal" rule, and it is directed specifically at the assumption underlying the rule that Alaska will not be richer in the future than it is today. As a nation, we have tended to reject such an assumption in favor of the idea of continuous material progress, with each generation being richer than the previous one because of technological improvements. Consequently, we feel that we don't need to save and deprive ourselves for the benefit of future generations, because we believe that our descendants will be better off *individually* than we are today. (This does not mean, however, that all individuals or regions of the country will share in this *material* progress, as the declines in the fortunes of Appalachia and New England readily attest.)

Unfortunately, the evidence to indicate that Alaska has or is developing an independent source of wealth to maintain a continuously increasing flow of dollars after Prudhoe Bay is *not* non-existent. *Just as an example* Consider the corporate income tax, our largest source of revenue even partially independent of petroleum, which in the fiscal year just

ended produced \$35 million in revenues. Assuming a continuation of the historic growth rate in receipts (10.8 percent), it will be over 35 years before it will generate an annual income of \$1.4 billion. Or consider coal--this year's glamour resource. > The current annual production of about 1 million tons directly accounts for less than four-thousandths of one percent of our revenues (\$200,000, or .004 percent). If the state could get 30 cents in royalties for every ton of coal mined, 4.7 billion tons--which is just about all of our current reserves (4.8 billion tons)--would need to be extracted annually to ^{every year in Alaska} put \$1.4 billion into the treasury. So even if it were physically or technically possible to mine this much coal in one year, it only provides one year of revenues.

> As we debate the merits of coal or agriculture or petrochemicals, time is inexorably running out on finding an alternative to petroleum. Of the 9.4 billion barrels of recoverable oil originally estimated at Prudhoe Bay, 7.1 ^{billion} remain. Almost one-fourth, 2.2 billion barrels (24 percent), has already flowed through the pipeline and out of the state.

What this suggests to me is that history will repeat itself, and Alaska will be relatively much poorer in the future when the petroleum boom has passed. The only way to prepare for that day is by following the simple rule: "never spend principal."

C. What Investments Should Our Savings Go Into?

The choice is between those investments which will earn a market rate of return and maximize income (government securities, corporate stocks, and real estate, for example) and investments made below the market rate of return which result in subsidies to particular activities that are deemed to be socially desirable or that will allegedly produce other economic benefits.

It is clear what we get by following the first approach: a return on investment with no side effects. The results of the second approach are more complicated, but usually the state makes a tradeoff in which it gives up revenues in exchange for immediate job creation and short-run increases in personal incomes, or for infrastructure development that presumably will, in turn, stimulate economic development. Previous reports to the Trustees have pointed out the two difficulties with the latter approach--first, economic activity in the private sector is distorted away from the goal of profit maximization toward the dubious goal of subsidy maximization (in Columbia, this has resulted in a new "ism" in memory of the pyramids--Pharaohism!); and, second, the benefits of the programs go to a small portion of the population. (These attributes mean that subsidies are really just like taxes in the sense that they cause distortions of the private economy and impact the pocketbooks of certain groups, and, consequently, their use should be determined by an open political process.)

One version of the subsidization approach is to invest in Alaska mortgages at interest rates below the market. The benefits claimed to result from this type of investment include a positive rate of return on investment, job creation, improvement of the quality of the housing stock, and a form of wealth distribution that will remain in Alaska and be widely shared. In addition to the obvious revenue loss, there are two problems with this use of our wealth which have not been explored. First, in terms of job creation, these subsidies are like a narcotic. In response to the initial subsidy, there is a rush of construction activity and job creation as people scramble for the cheap mortgages before the increase in housing prices offsets the subsidy and monthly housing costs return to their pre-subsidy level. This rush is followed by a contraction of activity and a return to normal levels of construction and employment. To get a larger number of construction jobs again, another "fix" is necessary, but this time the price is higher. The subsidy must be increased each season to get the same stimulation in the industry. The construction industry rapidly becomes an addict with an ever-increasing fix necessary to satisfy its habit.

Second, the benefits of this method of wealth distribution may not remain in Alaska. In the short run, they do, as rising real estate prices, benefit all Alaskan property owners (and penalize renters). (Incidentally, the "bang per buck" for this program in terms of houses built is very small. If \$100 million in subsidies was

allocated, and this resulted in 1,000 housing starts that would otherwise not have occurred, then each housing start cost the state \$100,000!) ^{Housing} If there is a post-Prudhoe economic bust, however, three factors will combine to produce the unthinkable--a fall in housing prices. (Residents of the Lower 48 are discovering that unthinkable as it may be, this is clearly not impossible.) First, property taxes, which have declined in recent years as the state has picked up a larger share of funding of local government, will have to be increased to provide for such basic government services ^{with the} as education and highway ^{of} maintenance. ^{etc.} Second, the promise of future mortgage subsidies will evaporate. ^{taken together} These two factors will combine to have exactly the opposite effect that they are having today. They will drive up the monthly cost of owning a home and ^{drive} drive down the price. Third, the demand for housing will fall as higher taxes and less government subsidization of the private sector combine to contract the economy and result in a decline in population. Under this ^{grim} grim scenario, the benefits of the housing subsidy program will clearly go to those who sell out while housing prices are high and head South. Those who remain behind in Alaska will see their housing assets depreciate in value and their share of Alaska's wealth disappear.

Thus, while a housing mortgage subsidy program has some appeal, as a job creating device that distributes Alaska wealth to a large group, it suffers from the same shortcomings that affect other subsidy programs.

A final point on subsidies: If the subsidization approach to investment is chosen, it must be based upon explicit criteria for evaluation just as regular investments can be evaluated on the basis of their rate of return. Specifically, subsidized investments must demonstrate the capability of generating tax revenues. If those revenues do not materialize, then this approach should be abandoned.

D. What Shall We Do with the Income from our Investments?

In the early years, all ^{PF} income should be plowed back into the Fund to build up its principal in anticipation of the day when it will ^{the fund may} be the primary source of revenue to the state. The "never spend principal" rule requires that the annual spending of \$1.4 billion ⁱⁿ 1981 dollars eventually come from Permanent Fund earnings. ^{however} Current residents are benefiting from Alaska's wealth, and it seems fair that the next generation of Alaskan residents, our children, should get their share. We, today, are already benefiting from the abolition of the income tax, low property taxes, subsidized loan programs, and massive government expenditures to improve the quality of life in the state. Future generations should not be denied their benefits because of the premature distribution of Permanent Fund earnings only to current residents. ^{the}

Looking toward the long run, permanent fund earnings should go into a special escrow account for Alaska residents against the day when the state may need to reintroduce the personal income tax. For every year that a person remains a resident, his account would be

credited with his per-capita share of fund earnings. All money would remain in this account until the tax was ^{well} reintroduced, at which time individuals could pay their taxes each year out of their share of the balance in the account. If a person left the state, his share would revert to the Permanent Fund and increase its principal.

Such a plan has ^{several} four attractive features. First, its benefits would be 100 percent targeted to Alaskans because only Alaskans pay Alaskan income taxes. Second, it would reward those who had been living in the state longer with larger benefits. Third, it would reward a broad population group. And, fourth, it would minimize any "false boom" resulting from a large cash distribution, which would stimulate in-migration of non-Alaskans seeking cash handouts. With such a plan, there would be no need to discriminate against our children, who are bonafide residents. ^{as well as adults.}

Some people will argue that the state personal income tax is gone forever, in which case this escrow fund would never be used and the benefits never realized. They could be right, although there is as yet no solid evidence that this is the case. To handle this possibility, a special stipulation ^{of the fund} would allow for distributions to begin after five years, ^{but only on the condition that a} target of ²⁵ percent of government expenditures could be financed at that time ^{by} renewable revenues. ^{population revenues} This stipulation would create a clear target toward which state policy could aim as well as a clear incentive for Alaskans to work to ensure the future economic viability ^{of} our state.

2 MR. HAVELOCK:

3 Thank you, Mr. Chairman. I'm flattered by that billing. I've
4 never been introduced as that before. That'll do, although
5 maybe I'd be more comfortable now that your right hand has
6 left I could go over and ease into that chair and give you
7 opinions on the legal side. I have three ranges of concerns
8 that I want to address today. The first is the institutional
9 arrangement. The relationship between the Permanent Fund and
10 other forms of government activity. The second is the question
11 of voter intent - what the voters meant and since that's been
12 discussed at some length here already I'm not going to belabor
13 that. The third is a question of distributional equity which
14 I've heard very little on today although perhaps that was
15 addressed this morning. I think that with respect to these
16 propositions the first thing I do is congratulate the
17 Chairman on his memorandum of September 10th which I think
18 contains most of the economic principles which I think the
19 Permanent Fund ought to operate on even though it in many
20 senses flies in the face of what is at least proclaimed as
21 the popular position on those things. I'm afraid that the
22 slogan "Invest in Alaska," unless it is tied to orthodox
23 standards of investment, and I heard a call earlier today for
24 unorthodox standards, is bad economics, bad political science,
25 bad social policy even if it's super politics. As the

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1 Chairman has indicated and there is no indication of a general
2 capital shortage in the State. There is no indication of
3 anything but a very limited need for capital generally.
4 Thirdly, you can't make submarginal economic prospects
5 profitable by throwing money at it and it is, again, kind of
6 interesting to see some of the people who criticised various
7 governments for throwing money at problems now being ready
8 to throw money at the problem of economic development in
9 this state. The investing in Alaska at preferred interest
10 rates to promote economic activity is the most grossly
11 inequitable manner in which distributions of this money could
12 be made and I think prima facie every Alaskan has equal stake
13 in the oil largess. Lastly, the investment of getting the
14 State involved in building the State's economy as its
15 primary function and purpose is likely to bring about an
16 entanglement of government in private enterprise which will
17 ultimately result in a loss of economic and personal freedom
18 and that I associate myself with what Arlon said on the same
19 subject. Starting on this entanglement proposition, let's
20 take a quick look at what the voter intention did mean.
21 All the publicity I remember on the occasion involved in the
22 popular discussion was about putting money away for a
23 rainy day. I did not hear anybody advance the argument that
24 the Permanent Fund was established to be a large semi-public
25 bank, nor that it was to provide benefit programs. It was

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1 argued that it was a device to meet the problem of a revenue
2 balloon that the government did face and that would provide
3 funds at a much later time to support basic services when --
4 since the tax base for the State was not otherwise there.
5 I've mentioned the popularity of positions involving investing
6 in Alaska and getting the Permanent Fund involved in -- into
7 social programs. It seems to me that is entirely a province
8 for the Legislature and not for the Permanent Fund.
9 Certainly there is a major need for public education on some
10 of the basic economic principles that the Chairman has
11 espoused and I would encourage you to hang tough on your
12 orthodox line to the extent you're willing to stay
13 orthodox. And let me make a comment about the nature of
14 public opinion on this issue which is that I think public
15 opinion supports orthodox positions on the Permanent Fund but
16 once you open the door - once you -- if you decide you're
17 going to let housing in and to a preferred position, then
18 every citizen is going to see that his only chance of getting
19 a share of this is to get his feet in the same trough so
20 you're going to have an erosion in terms of public opinion
21 which would support a conservative and orthodox approach to
22 Permanent Fund activity. The Permanent Fund is not set up.
23 Its accountability structure is wrong to engage in social
24 programs and I include housing policy as one of the social
25 programs which I hear being dabbled with today and I think the

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FIVE SEAS

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1 Legislature can independently address housing but don't suck
2 in the Permanent Fund. I see nothing wrong with the Permanent
3 Fund buying Alaska mortgages at established market rates
4 meeting the market test but not getting into the subsidy
5 business. I suppose if you do decide to get into that
6 business, you ought to think about amending the statute to
7 put representatives of renters titutions on the Board and
8 all the things that go along with a social policy in terms of
9 representation in the making of a policy. The Legislature is
10 there to address the social needs, whether of the economy or
11 of private persons and that kind of management belongs in the
12 political arena, not with the Permanent Fund, which, once it
13 starts into that, poses a danger of becoming a competing
14 government with the established government. Therefore, as
15 far as Permanent Fund policy recommendations, first, only in
16 Alaska, only in prudent investments and even then one need
17 be careful about investing in prudent investments to the point
18 where the Permanent Fund becomes the dominant financial
19 institution in the field. You have a risk, then, of that
20 extending. Secondly, you definitely should accumulate earnings
21 sufficient to account for the depreciation of your assets
22 caused by inflation. And thirdly, I would say that with
23 respect to your real income, don't mess with it. Let the
24 Legislature decide what it wants to do with it. If you
25 concentrate on just producing that income, there's your

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1 accountability and what you have produced with that. If you
2 get involved in social policies, it'll foul up the
3 accountability of the Permanent Fund management. Now, as a
4 last point, let me say I assume that it may be impossible for
5 you to do that. You may get sucked into things like dividend
6 programs which -- or distributions which are not strictly
7 involved in earnings. And, indeed, I suppose the Legislature
8 independently has to address some of those things. I, unlike
9 a speaker you've already -- or a number of speakers, I don't
10 think that direct cash benefits are desirable. I think they
11 would have a highly adverse effect in terms of national
12 policies which influence our funding if we get in the business
13 of handing out dough. I do think that there's a potential,
14 and here I'm really talking to the Legislature rather than
15 the Permanent Fund because I don't think Permanent Fund
16 managers ought to get into this business, but I think there's
17 a chance to make a fresh start in terms of encouraging
18 consumer choice. I feel uncomfortable, but in this sense I'm
19 in somewhat allying myself with Milton Friedman in the sense
20 of there are a lot of consumer choices that can be made in
21 terms of the distributions that you make rather than doing
22 government bureaucracies of establishing warrants -- I mean
23 I heard Arlon and others talk about making some kind of
24 distribution. Do it in case of warrants and do it, as far
25 as I'm concerned, to meet needs which are already established

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1 as governmental needs, not for fresh types of government
2 entitlement. That way there's a double benefit. Not only
3 does the person get to exercise his consumer choice in
4 pursuing what that might be, let's say, but also it will
5 help me because that person will be buying into an activity
6 which otherwise I may be called upon to support through
7 taxation. Further, you must -- I do think you should consider
8 the federal taxability of distributions. I don't think
9 there's any doubt that a direct cash distribution is federally
10 taxable and I think that there are a number of needs which
11 could be met, maybe among the first of which is a need for a
12 supplemental retirement benefit which would be taxable when
13 received but not taxable immediately and I regret that the
14 existing dividend program is not framed as a retirement
15 program because I think it would be much more likely to be
16 upheld constitutionally than the program now before the
17 Court. Having been run into by uninsured motorists twice
18 within the last year and finding that uninsured motorist
19 coverage does not include the damage to my car, I think it's
20 possible for you to set up a distributional benefit program
21 which would allow people to acquire some basic minimum of
22 insurance which would be an equitable way and probably a non-
23 taxable way of distributing a benefit. The same thing applies
24 to things like a health insurance and we're already into that
25 partly in terms of the educational program. Housing is among

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1 the worst programs that you could get into, but if you did I
2 certainly wouldn't want you to do it on the basis that is
3 involved. To give you a -- it is the worst in terms of the
4 distributional inequity that is involved in that kind of
5 distribution. It's only a small number of people at any
6 particular year that are going to be able to get in and I
7 look around at my friends getting into this market -- to some
8 extent we are compelled to get into it because you've got to
9 take advantage of the subsidy that's there. I think you will
10 find it is not people that don't have housing that are moving
11 into the housing market. It is people that are already well
12 housed but decide that they want to move into a new house.
13 I would suppose to illustrate the -- what would happen if you
14 made it an equitable program, I suppose you could issue a
15 certificate with warrants for a shelter allowance and those
16 people that wanted to take that warrant or certificate and
17 pledge it to a housing lender so that they could build a
18 house would be welcome to do so and others of us that didn't
19 feel or were happy with the house we now have but would love
20 to have a shelter allowance would clip the coupon and just
21 simply collect an equivalent to that. That would be a more
22 equitable way to do it and I think at the moment it's a very
23 damaging. I guess that's probably enough. I think you should
24 look at what would happen if you got into -- once you open
25 the door and relate that to the ceiling on expenditures which

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1 is being adopted. If the ceiling is adopted and you open the
2 door, you're going to find the Legislature is going to crowd
3 in all other kinds of social purposes as they feel the
4 pressure from the ceiling lid. Lastly, I think one of the
5 things wrong with the Permanent Fund was the amount of
6 dedication that was involved. It failed to reflect what
7 people didn't know at the time was going to be a very large
8 balloon at the beginning and that that balloon would graduate
9 out and I think a much larger proportion of the oil revenues
10 should be dedicated in these earlier years but I guess that
11 can only be done by legislative action and probably only
12 annually. Thank you, sir.

H B

7 7 4

COMMITTEE REPORT

HOUSE

(5)

FURTHER: FINANCE

2/12/82

Date: _____

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 774

"An Act relating to veterans' loans; establishing the Alaska veterans revolving loan fund; and providing for an effective date."

under consideration and (~~a majority of the committee~~) (~~the committee~~) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

ALASKA STATE LEGISLATURE

TWELFTH Legislature SECOND Session

HOUSE BILL NO. 774...

By THE STATE AFFAIRS COMMITTEE
BY REQUEST

"An Act relating to veterans' loans; establishing the Alaska veterans revolving loan fund; and providing for an effective date."

Veterans loans

Introduced in the House ... 2/12., 19..82

HISTORY IN THE HOUSE

19 82	Read first time and referred to Committee on
FEB 12	State Affairs and Finance Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reported correctly engrossed
	Signed by Speaker
	Sent to Senate
	CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19	Read first time and referred to Committee on
	Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reported correctly engrossed
	Signed by President
	Returned to House
	SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19	Received from Senate
	Concurred in Senate amendment thus adopting: VOTE
	Failed to concur in Senate amendment; asked Senate to recede VOTE
	Senate receded from amendment VOTE
	Senate failed to recede from amendment VOTE
	CC appointed by House
	CC appointed by Senate
	CC adopted by House VOTE
	CC adopted by Senate VOTE
	To enrolling Reported correctly enrolled Sent to Governor by Governor
	Filed with Lt. Governor
	Chapter No.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 774

Title An Act relating to Veterans' loans' establishing the Alaska Veterans' Revolving loan fund; and providing for an effective date.

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Commerce & Economic Development

Program Category Affected Economic Development

BRU, Program, Or Subprogram(s) Affected Division of Loans and Veterans' Affairs

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES		348.5	369.4	391.6	415.1	440.1
200 TRAVEL		46.8	49.6	52.5	55.7	59.0
300 CONTRACTUAL		11.2	11.5	12.1	12.9	13.6
400 COMMODITIES		7.9	2.1	2.2	2.4	2.5
500 EQUIPMENT		2.0	2.1	2.2	2.4	2.5
600 LAND & STRUCTURES		27.0	28.6	30.3	32.2	34.1
700 GRANTS, CLAIMS, ETC.						
TOTAL		443.4	463.3	490.9	520.7	551.8

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Veterans Loan Fund		443.4	463.3	490.9	520.7	551.8

POSITIONS

FULL TIME		10	10	10	10	10
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

HB 774 will reopen the Veterans' loan program with an additional \$80.0 million, with new authority to make business loans and increased limits for both business and multiple dwelling loans. This would mean an additional 400-500 new loans. Since these loans will include a number of business loans, Loan Examiner III's will be required plus support from document processing personnel. Accounting personnel will be required to service the loans once the loans are closed.

FY 1984-1987 figures are an extension of FY 1983 figures less one-time costs plus 6% inflation per year.

IV. DATE March 1, 1982

PREPARED BY Don Hostak, Director

AGENCY Department of Commerce & Economic Development

Original: Legislative Finance

PHONE 465-2555 Division of Loans and

cc: Budget and Management or 465-2510
Prime Sponsor (First Legislator Named)

Veterans' Affairs

33-001 (Rev. 12/81)

REC'D MAR 3 1982

1	POSITION TITLE Loan Examiner III	RANGE/STEP 21A	BARG. UNIT. GGU	LOCATION EBA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 1 of 10	FORM 12	PAGE/LINE
						LEG.	

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES: SALARY	34,044
5	BENEFITS 183/mo.	2,196
6	SBS .0613	2,086
7	FIXED BENEFITS .1568	5,338
	TOTAL PERSONAL SERVICES 01	43,664
9	TRAVEL 02	12,192
10	CONTRACTUAL 03	1,200
11	COMMODITIES 04	1,114
12	EQUIPMENT 05	-
13	OTHER ASHA	2,700
14	TOTAL COST	60,870

JUSTIFICATION:

SB 774 will -

Reopen the Veterans' loan program with an additional \$60.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:

- (a) Upper level loan examiners to handle business loans in all regional offices;
- (b) Document processing personnel in all three regional offices;
- (c) Accounting personnel for additional servicing support once the loans are made.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
		OTHER Veterans Loan Fund 60,870

22 CONTINUATION ADDITION FOR B&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

COMPONENT _____

Page _____ of _____ REVISED DATE _____

13 REQUEST FOR NEW POSITION.

FY 83

1	POSITION TITLE Loan Examiner III			RANGE/STEP 21A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DIBAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 2 of 10	FORM 12	PAGE/LINE	LEG.	
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION:			
	1	2	3	SB 774 will -					
4	PERSONAL SERVICES:			Reopen the Veterans' loan program with an additional					
	SALARY		34,044	\$80.0 million, with new authority for business loans and					
5	BENEFITS		2,196	increased limits for both business and multiple dwelling					
6	SBS		2,086	loans would require the following:					
7	FIXED BENEFITS		5,338	(a) Upper level loan examiners to handle business loans					
	TOTAL PERSONAL SERVICES		01	43,664	in all regional offices;				
9	TRAVEL		02	9,408	(b) Document processing personnel in all three regional				
10	CONTRACTUAL		03	1,200	offices;				
11	COMMODITIES		04	520	(c) Accounting personnel for additional servicing support				
12	EQUIPMENT		05	-	once the loans are made.				
13	OTHER ASHA			2,700					
14	TOTAL COST			57,492					
	RECEIPT CODE	FUNDING SOURCE							
15		FED RCPTS. 1002							
16		GF MATCH. 1003							
17		GEN. FUND 1004							
18		I-A RCPTS. 1005							
19		PGM RCPTS 1028							
		OTHER Veterans Loan Fund			57,492				
22	CONTINUATION ADDITION	FOR B&M USE ONLY							
4A	KEY NUMBER	COLUMN NO.							

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW
POSITION.

COMPONENT _____

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DATE _____

FY 83

1	POSITION TITLE Documents Processing Clerk III			RANGE/STEP	BARG. UNIT. GGU	LOCATION EBA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 4 of 10	FORM 12	PAGE/LINE		
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION: SB 774 will - Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following: (a) Upper level loan examiners to handle business loans in all regional offices; (b) Document processing personnel in all three regional offices; (c) Accounting personnel for additional servicing support once the loans are made.			
	1	2	3						
4	PERSONAL SERVICES:								
	SALARY		18,768						
5	BENEFITS		2,196						
6	SBS		1,150						
7	FIXED BENEFITS		2,942						
	TOTAL PERSONAL SERVICES		01	25,056					
9	TRAVEL		02	-					
10	CONTRACTUAL		03	1,200					
11	COMMODITIES		04	520					
12	EQUIPMENT		05	-					
13	OTHER	ASHA		2,700					
14	TOTAL COST			29,476					
	RECEIPT CODE	FUNDING SOURCE							
15		FED RCPTS. 1002							
16		GF MATCH. 1003							
17		GEN. FUND 1004							
18		I-A RCPTS. 1005							
19		PGM RCPTS 1028							
		OTHER Veterans Loan Fund			29,476				
22	CONTINUATION ADDITION				FOR B&M USE ONLY				
4A	KEY NUMBER				COLUMN NO.				

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW
POSITION

COMPONENT _____

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FY 83

1	POSITION TITLE	Loan Examiner III			RANGE/STEP	BARG. UNIT.	LOCATION	GOV.	APPROV.	DIBAPP.
					21A	GGU	JBA			
2	TYPE OF POSITION	STAFF MONTHS	RP No.	PCN No.	PRIORITY	FORM 12	PAGE/LINE	LEG		
	Permanent	12			3 of 10					

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	39,120
5	BENEFITS	2,196
6	SBS	2,398
7	FIXED BENEFITS	6,134
	TOTAL PERSONAL SERVICES 01	49,848
8	TRAVEL 02	12,960
10	CONTRACTUAL 03	1,200
11	COMMODITIES 04	1,114
12	EQUIPMENT 05	-
13	OTHER ASHA	2,700
14	TOTAL COST	67,822

JUSTIFICATION:
SB 774 will -

Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:

- (a) Upper level loan examiners to handle business loans in all regional offices;
- (b) Document processing personnel in all three regional offices;
- (c) Accounting personnel for additional servicing support once the loans are made.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1001
18		I-A RCPTS. 1005
19		PGM RCPTS 1078
		OTHER Veterans Loan Fund 67,822

22 CONTINUATION ADDITION FOR B&M USE ONLY

1A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW POSITION

COMPONENT _____

FY 83

Page _____ of _____ REVISED DATE _____

1	POSITION TITLE Documents Processing Clerk			RANGE/STEP	BARG. UNIT. GGU	LOCATION AWA	APPROV. LEG	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 6 of 10	FORM 12 PAGE/LINE		
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION:		
	1	2	3	SB 774 will -				
4	PERSONAL SERVICES:			Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:				
5	SALARY		18,768					
6	BENEFITS		2,196					
7	SBS		1,150					
8	FIXED BENEFITS		2,942					
9	TOTAL PERSONAL SERVICES		01	25,056				
10	TRAVEL		02					
11	CONTRACTUAL		03	1,200		(a) Upper level loan examiners to handle business loans in all regional offices;		
12	COMMODITIES		04	520		(b) Document processing personnel in all three regional offices;		
13	EQUIPMENT		05					
14	OTHER ASHA			2,700		(c) Accounting personnel for additional servicing support once the loans are made.		
15	TOTAL COST			29,476				
16	RECEIPT CODE	FUNDING SOURCE						
17		FED RCPTS. 1002						
18		GF MATCH. 1003						
19		GEN. FUND 1004						
20		I-A RCPTS. 1005						
21		PGM RCPTS 1008						
22		OTHER Veterans Loan Fund		29,476				
23	CONTINUATION							
24	ADDITION	FOR B&M USE ONLY						
25	KEY NUMBER	COLUMN NO.						

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW
POSITION

COMPONENT _____

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FY 83

1	POSITION TITLE Documents Processing Clerk III			RANGE/STEP	BARG. UNIT. GGU	LOCATION JRA	GOV.	APPROV.	DIGAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 5 of 10	FORM 12	PAGE/LINE	LED.	
3	TYPE OF EXPENDITURE			AMOUNT					
	1	2	3						
4	PERSONAL SERVICES: SALARY			21,132.					
5	BENEFITS			2,196					
6	SBS			1,295					
7	FIXED BENEFITS			3,313					
	TOTAL PERSONAL SERVICES			01	27,936				
9	TRAVEL			02	-				
10	CONTRACTUAL			03	1,200				
11	COMMODITIES			04	1,114				
12	EQUIPMENT			05	1,000				
13	OTHER ASHA			2,700					
14	TOTAL COST			33,950					
	RECEIPT CODE	FUNDING SOURCE							
15		FED RCPTS. 1002							
16		GF MATCH. 1003							
17		GEN. FUND 1004							
18		I-A RCPTS. 1005							
19		PGM RCPTS 1028							
		OTHER Veterans Loan Fund			33,950				
22	CONTINUATION ADDITION				FOR O&M USE ONLY				
4A	KEY NUMBER			COLUMN NO.					

JUSTIFICATION:
 SB 774 will -
 Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:

- (a) Upper level loan examiners to handle business loans in all regional offices;
- (b) Document processing personnel in all three regional offices;
- (c) Accounting personnel for additional servicing support once the loans are made.

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW POSITION.

COMPONENT _____

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1	POSITION TITLE Accountant II				RANGE/STEP 16A	BARG. UNIT. GGU	LOCATION AWA	BOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS. 12	RP No.	PCN No.	PRIORITY 7 of 10		FORM 12 PAGE/LINE	LEG		
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION:				
	1	2	3		SB 774 will -					
4	PERSONAL SERVICES:				Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:					
5	SALARY		27,492							
6	BENEFITS		2,196							
7	SBS		1,685							
8	FIXED BENEFITS		4,310							
9	TOTAL PERSONAL SERVICES		01		35,683					
10	TRAVEL		02							
11	CONTRACTUAL		03							
12	COMMODITIES		04		520		(a) Upper level loan examiners to handle business loans in all regional offices;			
13	EQUIPMENT		05							
14	OTHER ASHA				2,700		(b) Document processing personnel in all three regional offices;			
15	TOTAL COST				38,903		(c) Accounting personnel for additional servicing support once the loans are made.			
16	RECEIPT CODE	FUNDING SOURCE								
17		FED RCPTS. 1002								
18		GF MATCH. 1003								
19		GEN. FUND 1004								
20		I-A RCPTS. 1005								
21		PGM RCPTS 1028								
22		OTHER Veterans Loan Fund		38,903						
23	CONTINUATION			FOR B&M USE ONLY						
24	ADDITION									
25	4A KEY NUMBER		COLUMN NO.					

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW POSITION.

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1	POSITION TITLE Loan Examiner III			RANGE/STEP 21A	BARG. UNIT. GGU	LOCATION EBA	GOV.	APPROV.	DIGAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS. 12	RP No.	PCN No.	PRIORITY 8 of 10	FORM 12 PAGE/LINE	LEG.		
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION:			
	1	2	3	SB 774 will -					
4	PERSONAL SERVICES:			Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:					
5	SALARY	34,044		(a) Upper level loan examiners to handle business loans in all regional offices;					
6	BENEFITS 183/mo.	2,196		(b) Document processing personnel in all three regional offices;					
7	SBS .0613	2,086		(c) Accounting personnel for additional servicing support once the loans are made.					
8	FIXED BENEFITS .1568	5,338							
9	TOTAL PERSONAL SERVICES	01	43,664						
10	TRAVEL	02	12,192						
11	CONTRACTUAL	03	1,200						
12	COMMODITIES	04	1,114						
13	EQUIPMENT	05	-						
14	OTHER ASHA		2,700						
15	TOTAL COST		60,870						
16	RECEIPT CODE	FUNDING SOURCE							
17		FED RCPTS. 1002							
18		GF MATCH. 1003							
19		GEN. FUND 1004							
20		I-A RCPTS. 1005							
21		PGM RCPTS 1028							
22		OTHER Veterans Loan Fund		60,870					
23	CONTINUATION								
24	ADDITION	FOR B&M USE ONLY							
25	KEY NUMBER	COLUMN NO.							

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW POSITION.

COMPONENT _____

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FY 83

1	POSITION TITLE Clerk Typist III				RANGE/STEP	BARG. UNIT. GGU	LOCATION EBA	SOV.	APPROV.	DIGAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS. 12	RP No.	PCN No.	PRIORITY 9 of 10	FORM 12	PAGE/LINE	LEG		
3	TYPE OF EXPENDITURE				AMOUNT		JUSTIFICATION:			
	1	2	3		SB 774 will -					
4	PERSONAL SERVICES:				Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following:					
4	SALARY		16,716							
5	BENEFITS		2,196							
6	SBS		1,024							
7	FIXED BENEFITS		2,621							
	TOTAL PERSONAL SERVICES		01		22,557					
9	TRAVEL		02							
10	CONTRACTUAL		03							
11	COMMODITIES		04		834		(a) Upper level loan examiners to handle business loans in all regional offices;			
12	EQUIPMENT		05		1,000		(b) Document processing personnel in all three regional offices;			
13	OTHER ASHA				2,700		(c) Accounting personnel for additional servicing support once the loans are made.			
14	TOTAL COST				27,091					
	RECEIPT CODE	FUNDING SOURCE								
15		FED RCPTS. 1002								
16		GF MATCH. 1003								
17		GEN. FUND 1001								
18		I-A RCPTS. 1005								
19		PGM RCPTS 1028								
		OTHER Veterans Loan Fund		27,091						
22	CONTINUATION ADDITION			FOR B&M USE ONLY						
1A KEY NUMBER				COLUMN NO.						

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

BRU Veterans' Loans

13 REQUEST FOR NEW POSITION.

COMPONENT _____

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FY 83

1	POSITION TITLE Accounting Technician II				RANGE/STEP 14A	BARG. UNIT. GGU	LOCATION AWA	BOV.	APPROV.	DISAPP.						
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 10 of 10		FORM 12 PAGE/LINE	LEG.								
3	TYPE OF EXPENDITURE				AMOUNT		JUSTIFICATION: SB 774 will -									
	1	2	3													
4	PERSONAL SERVICES: SALARY		23,940		Reopen the Veterans' loan program with an additional \$80.0 million, with new authority for business loans and increased limits for both business and multiple dwelling loans would require the following: (a) Upper level loan examiners to handle business loans in all regional offices; (b) Document processing personnel in all three regional offices; (c) Accounting personnel for additional servicing support once the loans are made.											
5	BENEFITS		2,190													
6	SBS		1,467													
7	FIXED BENEFITS		3,753													
8	TOTAL PERSONAL SERVICES		01								31,356					
9	TRAVEL		02													
10	CONTRACTUAL		03													
11	COMMODITIES		04								520					
12	EQUIPMENT		05													
13	OTHER ASHA										2,700					
14	TOTAL COST										34,576					
15	RECEIPT CODE	FUNDING SOURCE														
16		FED RCPTS. 1002														
17		GF MATCH. 1003														
18		GEN. FUND 1004														
19		I-A RCPTS. 1005														
20		PGM RCPTS 1028														
20		OTHER Veterans Loan Fund		34,576												
22	CONTINUATION ADDITION			FOR O&M USE ONLY												
4A KEY NUMBER				COMPLD NO.												

AGENCY Commerce & Economic Dev. PROGRAM Economic Development

NAME Veterans' Loans

13 REQUEST FOR NEW POSITION.

COMPONENT _____

Page _____ of _____ REVISED DATE _____

FY 83

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 775

Title An Act making a special appropriation to the Alaska veterans revolving loan fund in the Department of Commerce & Economic Development; and providing for an effective date.

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Commerce & Economic Development

Program Category Affected Economic Development

BRU, Program, Or Subprogram(s) Affected Division of Loans and Veterans' Affairs

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Veterans Loan Fund	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS

FULL TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE March 1, 1982

PREPARED BY Don Hostak, Director

AGENCY Department of Commerce & Economic Development

Original: Legislative Finance

PHONE 465-2555 Division of Loans and

cc: Budget and Management

or 465-2510

Veterans' Affairs

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

HB

792

COMMITTEE REPORT

HOUSE

(5)

FURTHER:

2/15/82

Date: 2/13/82

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 792

"An Act relating to publications of executive agencies."

under consideration and ~~(a majority of the committee)~~ ~~(the committee)~~ reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends do pass
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]
[Signature]
[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

CHAIRMAN

COMMITTEE REPORT

HOUSE

3/19/82

(5)

FURTHER:

(Bill not legally before House.

Returned to State Affairs with Date: 3/29/82

all amendments which were offered & adopted)

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 792

"An Act relating to publications of executive agencies."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 712 (2d SA) same title new title
- and recommends DO PASS
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

**MEMBERS SIGNING
DO PASS**

[Signature]

[Signature]

[Signature]

**MEMBERS HAVING
OTHER RECOMMENDATIONS:**

[Signature]

note Dept of Admin

[Signature]
CHAIRMAN

A M E N D M E N T

OFFERED IN THE HOUSE:

By: state Affairs

To: CS HOUSE BILL No. 792

SENATE BILL No. _____

PAGE: _____

LINE: _____

Adopt proposed CS
As attached with these changes:

line 22: delete [a] and add an "s" to publication

line 24: delete [that] and insert "those" and add an "s" to publication.

line 26: add an "s" to publication.

Since many of our publications serve the joint purpose of informing the Governor, the Legislature, the public, and complying with Freedom of Information regulations, this bill leaves the status of reports regarding our programs and problems in limbo as to numbers of documents produced and use of color in their production. A document that sits on a shelf does no one any good.

POSITION PAPER

HB 792

Department of Commerce & Economic Development

Several of the divisions of the Department of Commerce and Economic Development have an ongoing need to communicate with the general public as part of their normal function and to use color reprographic materials as a working tool to accomplish the goals and objectives of the organization.

The printing requirements of these divisions will involve the placement of brochures, booklets, maps, technical data, reports and other informational formats before both the public and private sectors on both a national and international basis where they will be subjected to a most competitive environment. Division effectiveness with this printed material will be measured by the success or failure of developing or maintaining jobs within Alaska, by the sale of Alaskan products, the ability to attract new business ventures, gains or losses in revenue, or simply the ability to maintain or alter an image that is associated with Alaska.

For the programs of the Department of Commerce and Economic Development to be restricted in the use of color reprographic materials as proposed in HB 792 would severely hinder the efforts of the department that have a justifiable need for the use of color.

The Department of Commerce and Economic Development strongly supports the concept of justifiable use of color in department informational materials. Accountability for the expenditure of funds for multi-color materials should rest at the director level within the organization.

Within the department the use of color by the Alaska Division of Tourism is essential to the State tourism program and to consider promotion of the State with noncolor brochures, booklets, posters, and pamphlets would spell disaster for the second largest industry of Alaska. In the marketplace color is required if program effectiveness is to be realized. It should also be noted that flexibility must also be available to the division in order to respond on short notice to changing market situations regarding a format or presentation that will be placed in the hands of potential visitors to Alaska.

Another limitation that would be placed on the Alaska visitor industry would be the use of color in community brochures. Most of the Alaskan communities that have applied for matching funds from the tourism development grant funds have used color in their local brochures.

It is essential that full consideration be given to the total ramifications of the proposed legislation that would severely impact the economic development of the State of Alaska if the bill was to remain as written.

E. W. Eboch

Edward W. Eboch
Deputy Commissioner
Department of Commerce and Economic
Development