

ALASKA LEGISLATURE COMMITTEE FILES 1983-1984 86/2

2467 HJ HB 721 - HCR 34

2917

## FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

CFAB should require that inventories used as collateral be insured, naming CFAB as the loss payee.

CFAB has developed procedural manuals for the processing and accounting of loans and for collateral control. These manuals are well written and are useful management tools.

We reviewed 67 (49%) of the 136 loans made from April 1980 through March 13, 1981. The loan files, in general, were well organized and contained required information. However, we did note an area of weakness in collateral control that needs to be addressed.

Our test included eight loans for which CFAB has a secured interest in the inventories as collateral for the loan advances. Five of these loans did not have insurance on the inventories, naming CFAB as the loss payee.

CFAB could lose its security on the loan advances through spoilage, accident, fire, etc. Therefore, CFAB should require that insurance be obtained by the borrower, naming it as the loss payee, on inventories in transit and inventories not held in bonded warehouses.

### Recommendation No. 2

CFAB should compensate members of the Board of Directors for travel expenses in compliance with Alaska Statutes.

CFAB reimburses members of the Board for actual travel expenses rather than a fixed per diem rate established by the Commissioner of Administration. During Fiscal Year 1980, Board members were reimbursed for \$33,807 in actual travel expenses.

AS 44.81.110 states the Board members are to receive compensation at a rate determined by the Board for each day the Board meets if they attend the meeting. In addition, they are entitled to per diem and travel allowances as provided by law for members of State boards and commissions. AS 39.20.180(2) states the members of boards and commissions are entitled, for expenses other than transportation, to a per diem allowance prescribed by the Commissioner of Administration.

Recommendation No. 3

CFAB should give public notice of its Board and membership meetings in accordance with Alaska Statutes.

CFAB has not given public notice of the dates and places of its Board and membership meetings.

A memorandum dated May 13, 1981 from the office of the Attorney General states the Open Meetings Act (AS 44.62.310 - 44.62.312) is applicable to CFAB. AS 44.62.310(e) requires reasonable public notice be given for all meetings required to be open under the Act. Since action taken at meetings held contrary to the Act may be void, it would be prudent of CFAB to comply with the public notice requirement for future meetings.

Other Information

This section of the report addresses the results of our review of CFAB expenditures from inception through April 30, 1981. We have included this information because a significant number of the expenditures may be inappropriate for an entity subsidized by public funds.

Throughout the audit CFAB management has maintained it is a private cooperative entity. They believe they are responsible only to their members, each of whom has purchased a single share of class A common stock for \$100, and class B common stock in an amount equal to ten percent of the member's loans (the amount necessary to purchase the B stock is added to the loan amount requested, deducted from loan proceeds by CFAB at closing, and capitalized.)

CFAB is primarily capitalized through a purchase of nonvoting class C stock by the State of Alaska. Paid-in capital at April 30, 1981 is shown as follows on CFAB financial statements:

Class A Common Stock	\$	1,770
Class B Common Stock		2,534,900
Class C Common Stock		32,000,000
Capital in Excess of Par Value		<u>15,300</u>
<u>Total Paid-In Capital</u>		<u>\$34,551,970</u>

Each Alaskan has an interest in the manner in which public funds are spent. CFAB has been given a specific mission by the Legislature; that of enhancing commercial fishing and agricultural activities in Alaska. They have been provided with the authority and the wherewithal to accomplish this mission.

As an entity that receives a large State subsidy, we believe it is incumbent upon CFAB management to exercise a higher degree of prudence with their spending habits than if they were completely privately funded.

The following items represent a sampling of CFAB expenditures from inception through April 30, 1981, some of which are questionable:

A. Furniture, Fixtures, and Leasehold Improvements

The balance of CFAB's furniture and fixtures account as of December 31, 1980, CFAB's fiscal year end, totalled \$313,966. Of this amount, \$246,835 was for expenditures for the Anchorage office. The total expended for leasehold improvements as of the same date was \$65,850, which was for purchases of carpet, wallpaper, etc. The following is an example of the type of furnishings purchased for the Anchorage office.

1. President's Office

Sofa	\$ 3,631
Five swivel upholstered chairs	7,717
Teak bookcase/cabinet units with refrigerator and liquor cabinet	4,232

2. Executive Assistant's Office

Natural oak desk	\$ 2,302
Natural oak credenza	3,150

3. Senior Vice-Presidents' Offices

Two teak executive desks	\$ 2,903
Two teak coffee tables	1,812
Two teak bookcase/cabinet units	5,453

4. Executive Conference Room

Rosewood conference table	\$16,225
Conference chairs (14)	10,470
Soapstone carving of a land otter with a crab	2,000

In addition, CFAB maintains an apartment in Juneau for which \$4,218 in furnishings were purchased, such as two beds, dresser, color television, dinette set, desk, etc. Leasehold improvements were made totalling approximately \$2,254, including new carpet and wallpaper.

## B. Art Work

As of December 31, 1980, the balance of the non-depreciable assets account totalled \$13,353. This represents purchases of prints and paintings for the Anchorage office. A sample of the paintings are:

Custom ordered original paintings by Charlen Jeffery

1. "Brown Bear" watercolor	\$ 3,400
2. "Musk Ox" watercolor	1,750
3. "Cows" watercolor	1,850
4. Six additional watercolors on rice paper, subject matters are fishing and agriculture	2,150
5. "Alaska Fisherman and Farmer"	800
6. "Toast of Alaskan Holiday"	800
7. "Alaskan Logger"	950

## C. Automobiles

1. 1980 Chevrolet Citation for a branch office	\$ 7,918
2. 1981 Chevrolet Malibu for a branch office	8,874
3. 1980 Subaru 4x4 Station Wagon for the Anchorage office	7,842
4. 1981 Subaru 4x4 Station Wagon for the Senior Vice-President/ Administration	<u>9,350</u>
<u>Total</u>	<u>\$33,984</u>

In addition to the bank owned vehicles, CFAB pays the \$168 per month lease charge for the President's vehicle. Maintenance and repair costs for the leased and bank owned vehicles totalled \$4,543 during Fiscal Years 1980 and 1981, through April 30. Gasoline expense is paid for the leased vehicle, the bank owned vehicles, and the personal vehicle of the Senior Vice-President/Credit, including gasoline consumed for personal use. The staff employees are reimbursed for the business use of their personal vehicles at a rate of 25 cents per mile.

## D. Salaries and Benefits

### 1. Salaries, Bonuses, and State Benefits

Salary and benefit expenditures totalled \$996,692 for Fiscal Year 1980. Included in this amount was \$108,192 for year-end bonuses. In addition, two CFAB employees received a total of \$1,565 in cash bonuses during the year and \$2,390 was paid directly to a travel agency for a bonus trip to Hong Kong for the Senior Vice-President/  
Administration and his spouse.

CFAB is presently accruing \$22,000 to \$24,000 per month for bonus expense. The Fiscal Year 1981 total budgeted bonus accrual is \$282,356.

CFAB officers and employees are in the exempt service of the State personnel system. They are covered by the State insurance and retirement programs. They are also exempted from the Social Security Act, as are other State employees, and instead participate in the State Supplemental Benefit Program. Employer contributions for these benefits are paid from CFAB's operating funds. Officers receive four weeks annual leave and employees receive three weeks. In addition, both officers and employees accrue sick leave at a rate of one day per month.

2. Other Benefits, Fiscal Year 1980

Staff room costs (coffee, hot chocolate, tea, sugar, dish soap, etc.) \$2,943

Season tickets to the Alaska Repertory Theatre \$ 376

Staff Christmas party at the Anchorage Westward Hilton:

Food	\$2,353	
Liquor	2,197	
Entertainment	600	
Floral centerpieces	<u>211</u>	
		\$5,361

Turkeys for CFAB officers and employees \$ 415

Banquet for a staff meeting at the Sheraton Hotel \$ 773

The President, Senior Vice-President/Administration, a prospective employee and their spouses had dinner at the Captain Cook Hotel in Anchorage. \$ 245

A branch manager and his spouse had two dinners with two CFAB employees at the Mecca Lounge in Kodiak. \$ 320

The total charged to the other employee benefit and the other personnel expense accounts in Fiscal Year 1980 was \$6,076 and \$13,810, respectively.

## E. Office Space

The Anchorage office is approximately 7,000 square feet which includes two kitchens each equipped with oak cabinets, microwave oven, dishwasher, and refrigerator. Also, one kitchen has a built-in stove top. CFAB purchased a dinette set for \$1,108 and a natural oak conference table and upholstered chairs for \$4,360 for kitchen/staff room furnishings. In addition, the President's office includes a bathroom with a shower stall.

## F. Directors' Fees

In Fiscal Year 1980, \$32,479 was paid to members of CFAB's Board of Directors. Originally in March 1979 the Board set its rate of compensation at \$100 per day during Board meetings in addition to per diem and travel expenses set forth by State law. In April 1979 the Board voted to increase the compensation rate to \$250 per day for the Chairperson and \$200 per day for the members. Again, in February 1980 the rate of compensation was increased to \$500 and \$400 per day for the Chairperson and members, respectively. In addition, CFAB has reimbursed Board members for actual expenses rather than paying a per diem rate, see Recommendation No. 2.

In May 1980 the Board voted to compensate members for work concerning CFAB, other than attendance at meetings, at a rate of \$62 per hour for the Chairperson and \$50 per hour for the members. During the period November 1979 through April 1981, a Board member has been paid \$12,438 for organization and consultation services.

## G. Travel, Lodging, and Meals

During a review of Board and staff members' monthly expense reports for the period October 1979 through March 1981, we noted the following:

### 1. President's Foreign Travel

- a. A European tour, from October 24 through November 17, 1980, to Denmark, England, Rome, and Paris: the purpose of the trip was to tour the Danish fishing industry, visit the British banks and the White Fish Authority, examine the British dairy industry, attend the International Fisheries Conference, and the Fisheries Products Exposition. (Cost includes airfare, totalling \$1,881, for the President's spouse, as well as an undetermined amount for her meals and lodging expense.)

\$8,805

- b. An agriculture tour from January 28 through February 12, 1981, to Denmark, Norway, Sweden, and Finland: (Cost includes International Fisheries Conference fees for the President's spouse and the spouse of the Chairperson of the Board, totalling \$376.) \$6,088
- c. At the November 25, 1980 Board meeting, the President apprised the Board of his tentatively scheduled trips for 1981:
- January - Denmark  
(Same as b. above)  
Spring or Summer - Japan  
October - Munich
2. Senior Vice President/Administration - Foreign Travel
- a. A trip to London, England in January, 1981 \$2,681
3. Dinners
- a. The following dinners were reported on the expense reports of the President and Senior Vice-President/Administration:
- 1) A dinner at the Corsair in Anchorage attended by four CFAB employees and their spouses. \$256
- 2) Three CFAB officers and their spouses had dinner at Simon & Seafort's Saloon & Grill in Anchorage. \$191
- 3) The President and Senior Vice-President/Administration and spouses had dinner with a local businessman and spouse at the Corsair in Anchorage. \$210
- 4) The President, Senior Vice-President/Administration, and a prospective employee had dinner. \$164

- |     |  |                     |
|-----|--|---------------------|
| 5)  | Two legislators, CFAB's attorney, and a consultant had dinner in Juneau with the President, Senior Vice-President/Administration and a secretary.                            | \$213               |
| 6)  | A dinner at Yancey Derringer's in Juneau with four Board members and the Senior Vice-President/Administration.   | \$343               |
| 7)  | Five members of the Board, the three senior executive officers, the Vice-President/Branch Management, and CFAB's attorney had dinner at Josephine's Restaurant in Anchorage. | \$281               |
| 8)  | Three dinners at Josephine's Restaurant for the five members of the Board and the Senior Vice-President/Administration.  | \$534<br>400<br>449 |
| 9)  | The Senior Vice-President/Administration and the Chairman of the Board had dinner at the Captain Cook Hotel in Anchorage.  | \$125               |
| 10) | The two Senior Vice-Presidents had dinner at Josephine's Restaurant in Anchorage.  | \$157               |

All told, there were 48 dinners on the expense reports of the President and Senior Vice-President/Administration each costing in excess of \$100 during the period October 1979 through March 1981.

b. Cost of dinners or lunches noted on other persons monthly expense reports:

- |    |  |       |
|----|--|-------|
| 1) | Branch Manager took Branch Assistant to lunch on five occasions.   | \$137 |
| 2) | The two Seattle branch office employees and six employees from offices in Alaska dined in Seattle.       | \$127 |
| 3) | The two Seattle branch office employees and seven employees from the offices in Alaska dined in Seattle. | \$448 |
| 4) | Staff lunch at Clinkerdagger, Bickerstaff & Petts Public House in Anchorage.                             | \$172 |

c. Banquets held in March 1981 at the Sheraton Hotel in Anchorage. Costs include \$398 for liquor.	\$1,331
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4. Miscellaneous Expenditures

a. Alaska Airlines Board Room, United Airlines Red Carpet and University Club (San Francisco) membership dues on the expense reports of the President or Senior Vice-President/Administration.	\$400
b. Tuxedo rental.	\$40
c. Liquor and mixes for the bar in the President's office.	\$243
d. Glassware and cutlery purchased at Design Craft Ltd. in Anchorage.	\$159
e. Towels and accessories for the executive bathroom purchased at Nordstrom in Anchorage.	\$100
f. Two gift certificates for dinner at Josephine's Restaurant in Anchorage.	\$200
g. Gift certificate at Stephan Fine Arts gallery.	\$100

H. Promotional Costs

1. Anchorage Pre-opening Party at the Sheraton Hotel

64 dinners	\$1,325	
19 bottles Chenin Blanc	186	
18 bottles Pinot Noir	124	
Hosted bar - 283 drink tickets	814	
Flowers	180	
		\$2,629
Meals and lodging for: three members of the Board, two CFAB employees, three business associates, and five spouses.		1,153
Total Anchorage Costs		3,782

2. Pre-opening Parties at Branch Offices

a. Kodiak:

Party room rental and permit	\$ 160
Food	450
Bar	621
Gratuity	<u>130</u>

Total food and bar costs	1,361
Air charter for CFAB employees	<u>2,711</u>

Total Kodiak Costs 4,072

b. Cordova:

Elks Club 7,610

c. Homer:

Finger food for 200 persons	\$ 900
Bar	934
Tax	<u>18</u>

Total Homer Costs 1,852

d. Air charter for CFAB employees to Cordova and Homer pre-opening parties. 2,541

e. Seattle (costs are based on an estimate prepared by the Branch Manager):

Invitations	\$ 89
Seafood:	
Crab legs	160
Prawns	90
Caterer	1,100
Liquor and mix	<u>600</u>

Total estimated Seattle Costs 2,039

Total Cost of Pre-opening Parties \$21,896

3.	Legislative Cocktail Party at the Baranof Hotel in Juneau (100 quests)		
	Food	\$1,770	
	Liquor	<u>982</u>	
			\$2,752
4.	Sixty-six Eddie Bauer Gortex mountain parkas with CFAB logo purchased for employees and members of the Board.		\$5,064
5.	Gift packs of Blake's Fancy Smoked Salmon for customers.		\$555
6.	5,750 Dot's Tide Table books printed with CFAB logo for customers.		\$4,573
7.	Cookbooks.		\$1,984
8.	1,000 1980 Annual Reports (cost includes color setups, slides, printing, design work, etc.)		\$27,466

APPENDIXES

APPENDIX A

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK  
SUMMARY SCHEDULE OF LOANS

For the period 04/02/80 - 03/13/81

<u>Purpose of Loan</u>	<u>Total Number of Loans Made</u>	<u>Total Original Amounts</u> (See Notes 1 & 2)	<u>Total Outstanding Balance as of 3/13/81</u> (See Note 3)
Entry Permit Purchase	4	\$ 184,800	\$ 176,600
Entry Permit Refinance	7	217,200	217,200
Used Vessel Purchase	34	3,587,155	3,492,258
New Vessel Purchase	20	3,918,596	1,968,703
Vessel Refinance	35	8,708,721	8,427,605
Vessel Repair	2	40,900	40,900
Gear Purchase	8	443,300	408,339
New or Used Vessel Equipment Purchase	8	327,820	311,615
Miscellaneous Debt Refinance	6	409,877	409,859
Fisherman Working Capital	2	10,750	10,750
Fish Processor Working Capital	<u>10</u>	<u>37,757,000</u>	<u>8,823,857</u>
Totals	<u>136</u>	<u>\$55,606,119</u>	<u>\$24,287,686</u>

See Accompanying Notes to the Summary Schedule of Loans

## APPENDIX B

### ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK NOTES TO THE SUMMARY SCHEDULE OF LOANS For the period 04/02/80 - 03/13/81

#### Note 1

Borrowers are required to purchase CFAB class B stock in an amount equal to 10% of the loan proceeds. The original loan amount listed includes the amount loaned for the purchase of the class B stock.

#### Note 2

Certain portions of the Fish Processor Working Capital loans are guaranteed by the State of Alaska under the authority of SLA 1980, Chapter 32.

#### Note 3

On May 14, 1980, CFAB signed a loan agreement with the Spokane Bank for Cooperatives (SBC) which established a line of credit to finance CFAB's current lending activity. As amended on June 18, 1980, CFAB may borrow up to \$30,000,000. The agreement is for a one-year term from June 1, 1980, bearing interest at a floating rate prescribed by SBC. Interest is payable the last day of each quarter. The loan is secured by all CFAB notes evidencing loans to members. The loan agreement is to be renegotiated annually. The outstanding loan balance at March 13, 1981 totalled \$1,000,000.

Further, CFAB is required, in accordance with the Farm Credit Act to purchase SBC class C stock in an amount equal to 15% or a lesser amount prescribed by SBC of the quarterly interest payable. The amount of CFAB's investment in SBC class C stock at March 13, 1981 totalled \$47,784.

APPENDIX C

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK  
 SCHEDULE OF LOANS BY BRANCH OFFICE (See Note 1)  
 for the Period 04/02/80 - 03/13/81  
 (UNAUDITED)

Purpose of Loan	Anchorage			Cordova			Kodiak			Homer		
	Number of Loans Made	Original Loan Amount	Outstanding Balance as of 03/13/81	Number of Loans Made	Original Loan Amount	Outstanding Balance as of 03/13/81	Number of Loans Made	Original Loan Amount	Outstanding Balance as of 03/13/81	Number of Loans Made	Original Loan Amount	Outstanding Balance as of 03/13/81
Entry Permit Purchase	-0-	\$ -0-	\$ -0-	-0-	\$ -0-	\$ -0-	1	\$ 39,600	\$ 39,600	3	\$ 145,200	\$ 137,000
Entry Permit Refinance	2	49,500	49,500	3	74,200	74,200	-0-	-0-	-0-	2	93,500	93,500
Used Vessel Purchase	13	1,974,790	1,890,982	9	461,530	450,446	6	397,330	397,330	6	753,500	753,500
New Vessel Purchase	10	1,756,488	1,279,453	5	399,600	231,844	3	1,592,008	286,906	2	170,500	170,500
Vessel Refinance	15	5,686,750	5,516,936	7	346,510	310,426	4	1,519,450	1,444,306	9	1,156,011	1,155,937
Vessel Repair	1	5,000	5,000	-0-	-0-	-0-	-0-	-0-	-0-	1	35,900	35,900
Gear Purchase	4	277,200	260,506	1	33,000	33,000	-0-	-0-	-0-	3	133,100	114,833
New or Used Vessel Equipment Purchase	2	65,070	64,485	3	89,450	73,368	1	24,200	24,200	2	149,100	149,562
Miscellaneous Debt Refinance	2	165,000	165,000	2	192,227	192,209	-0-	-0-	-0-	2	52,650	52,650
Fisherman Working Capital	1	7,950	7,950	1	2,300	2,800	-0-	-0-	-0-	-0-	-0-	-0-
Fish Processor Working Capital	10	37,757,000	8,823,857	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>Totals</b>	<b>60</b>	<b>\$47,744,753</b>	<b>\$18,063,669</b>	<b>31</b>	<b>\$1,599,317</b>	<b>\$1,368,293</b>	<b>15</b>	<b>\$3,572,588</b>	<b>\$2,192,342</b>	<b>30</b>	<b>\$2,689,461</b>	<b>\$2,663,382</b>

See Accompanying Notes to the Schedule of Loans by Branch Office.

APPENDIX D

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK  
NOTES TO THE SCHEDULE OF LOANS BY BRANCH OFFICE  
For the period 04/02/80 - 03/13/81

Note 1

CFAB has two additional branch offices; one in Seattle and another located in Ketchikan. The Seattle office does not process loans. The Ketchikan office opened in November 1980 and as of March 13, 1981 had not made any loans.



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Anchorage, Alaska 99509  
(907) 276-2007  
SRA 90-B  
Homer, Alaska 99603  
(907) 235-8234

Roseleen "Snooks" Moore  
**RECEIVED**  
AUG 31 1981  
**LEGISLATIVE  
AUDIT**

August 27, 1981

Mr. Paul V. Harris, CPA  
Anchorage Office Manager  
State of Alaska  
Division of Legislative Audit  
P.O. Box 1231  
Anchorage, Alaska 99510

Dear Mr. Harris:

The report entitled, A Performance Review of the Commercial Fishing and Agriculture Bank dated May 22, 1981, to which you have requested our reply, is essentially the same as that submitted to us by the auditors themselves. We are, therefore, submitting our reply to that original submission. It remains applicable with the following modifications.

1. The reference to open board meetings is new to this report, and
2. The auditors have removed references to actions taken by the board of directors.

Since the completion of the audit, legislation has been passed clarifying CFAB's status and its relationship to the State. That legislation causes the majority of points covered in the audit, and indeed, the focus of the audit itself, to be currently moot.

The Board of Directors and the Management of CFAB look forward to working with the Committee in the future.

Sincerely,

Roseleen "Snooks" Moore

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2550 Denali Street, Suite 1201  
P.O. Box 4-2070  
Anchorage, Alaska 99509  
(907) 276-2007

June 12, 1981

Mr. Paul V. Harris, CPA  
Anchorage Office Manager  
State of Alaska  
Division of Legislative Audit  
P. O. Box 1231  
Anchorage, Alaska 99510

Dear Mr. Harris:

It is apparent from your letter that the audit has failed to grasp the mandate given to CFAB by the Legislature. It has also been unable to properly evaluate the complexities and intricacies of operation demanded of a private company operating in the private market. These standards are imposed upon CFAB in order to fulfill the mission spelled out in the enabling legislation.

The fundamental concept of the Alaska Commercial Fishing and Agriculture Bank (CFAB) is that it is a private, cooperatively owned and managed financial institution. This design was mandated by the Legislature for the purpose of linking with the national cooperative banking system to bring outside capital to Alaskan fishermen and farmers. The designers of CFAB recognized that it must be a private corporation in order to qualify for participation in the national system. The Banks for Cooperatives are prohibited by law from affiliating with or lending money to a government organization. If CFAB had not been organized to operate as a private organization, it would not have been able to lend, in 16 short months of operation, over \$30,000,000 to its over 225 member stockholders who are Alaska fishermen and farmers, and over \$50,000,000 to its member stockholders who are processors, as required by the Legislature. Nor could we have provided employment opportunities to Alaskan workers who crew the vessels, till the land, or process Alaska's fish and farm products.

Even in CFAB's short history, it has fulfilled the intent of bringing in outside capital to finance our fishermen, farmers and processors. Today, the commitment of the Banks for Cooperatives far exceeds that of the original State commitment. Additionally, we have increased the net worth of the Cooperative by more than \$4 million during that same short period. We have in excess of \$40 million in pending loan applications and fully expect to exceed \$300 million in loans to fishermen, farmers and processors by the year 1985.

*Alaska Commercial Fishing and Agriculture Bank*

In testimony before the State Legislature on several occasions, the Spokane Bank for Cooperatives has testified that they have an excellent relationship with CFAB and hold its management and operations in high regard. They have remarked that the progress made by the Cooperative during its brief period of operation has exceeded their expectations for us at the end of five years. In that testimony, they plainly stated that they would not be able to lend to CFAB if we were not a private cooperative. If CFAB were not a private cooperative, it would cease to be part of the national cooperative banking system and hundreds of millions of dollars would be lost to Alaskan fishermen and farmers. In their place, the Legislature would have to fund the operations of CFAB in the annual budget document and allocate those millions for the same loans, thus reducing the funds available to the people of the state for other purposes and costing them millions of dollars in subsidies.

Our basic instructions from the Governor, the Legislature, and the consultants at the time of CFAB's creation were to form a private, cooperative financial institution. If that is not the case, as you suggest by your comments and the standards apparently used in formulating your audit, then the intent of the legislation cannot be carried out, outside funds cannot be brought in to benefit farmers and fishermen through CFAB, and the Legislature will be forced to appropriate necessary funds from the General Fund. This will, of course, place the State directly back into the loan business against the wishes of the Legislature and the financial community.

The Legislature also intended that CFAB be audited and required in the original legislation that the board of directors have an annual audit performed by outside, independent auditors, and that the audit report be made available to the Governor, members of the Legislature, and the general public. CFAB has employed the national firm of Price Waterhouse & Co. for that purpose. They have completed audits for the years 1979 and 1980. A copy of the 1980 report is attached. This audit clearly shows CFAB to be following proper practices and procedures.

In determining performance, one must look at achievements toward a stated goal. In its brief history, CFAB's achievements are many. Among them are:

1. Establishment of a well organized, systematically run business which is managed according to generally accepted management practices, including:
  - a. Stated mission, goals, objectives, and action plans;
  - b. Complete and accurate accounting systems;
  - c. Detailed, written policies and procedures covering the whole of our operation;
  - d. Complete budgeting and financial reporting system;
  - e. Employee policies, pay scales, job descriptions, and evaluation systems;

- f. Printed documentation for loans bearing the approval of both general and specialized legal counsels of the Cooperative.
2. Active involvement of the members of the Board of Directors in the policy development and control of the organization, plus a high level of attendance by those members at meetings.
3. Development of a full and professional cadre of accounting, legal, insurance, tax, and management advisors of national stature.
4. Completion of a procedural audit by a national firm of CPAs using both their auditors and management advisory groups to insure the continuity of our procedural and control systems. This form of audit is scheduled to be performed on an annual basis.
5. Development of 32 specialists in various aspects of fisheries finance. These add to an extremely limited, if not almost non-existent, field of expertise.
6. Opening five branch offices, offering the full services of the Cooperative, in key areas throughout the state. Branches are now located in Kodiak, Homer, Cordova, Ketchikan, and Seattle.
7. Maintenance of an active calling program to areas outside of the locations of our established offices.
8. Attracting and financing nearly 250 member shareholders from geographically dispersed areas within the state.
9. Development of a full range of loan programs to serve the fishing and agriculture industries, adding appreciably to those previously available.
10. Development of credit lines necessary to meet CFAB's financial needs and its commitments to members.
11. Achievement of more rapid turnaround of loan applications.
12. Achievement of profits in each of its accounting periods despite expensing all opening and operating costs. Profits for the first quarter of this fiscal year are \$800,000.
13. Return of patronage dividends equal to  $9\frac{1}{2}$  percent of the interest paid by members during 1980.
14. The first installment in the return of the State's initial capital investment was made.

15. Support of agriculture and fisheries development through:
  - a. support of 4-H and FFA;
  - b. creation of the Young Alaska Farmers Financing Cooperative to provide financing for youth agricultural projects;
  - c. development of financial planning manuals for use by fishermen and farmers;
  - d. support and initiation of research projects;
  - e. participation in policy development.
  
16. Enhancing other financial agencies' abilities and opportunities to finance both fisheries and agriculture. CFAB is currently financing the customers of the Agriculture Revolving Loan fund during a period in which it is out of funds, enabling farmers to plant crops and advance projects in the critical summer months.

We have also provided the necessary additional funds and controls of credit to allow other Alaska banks to safely become involved with or continue their involvement with Alaska processors.
  
17. Adding a point of financial professionalism to the Alaska fishing and agriculture industries to which foreign and "Lower 48" financial institutions can relate and on which they can rely.

In the formulation of your letter, you have failed to relate to specific key points about CFAB's operation. It is owned and operated by private shareholders who bear the full risk of its operation and whose investments are subordinated to those of the State. It is these shareholders who, by law, have the management and control of the Cooperative. Moneys expended by the Cooperative in the achievement of its business purposes are not those of the State. Unlike a State or other public body, CFAB's expenditures do not represent an irrevocable loss of those funds to the people of the state. Expenses are paid by the income of the Cooperative derived from its operations which, by definition and federal tax law, are the property of the member stockholders. CFAB is governed not only by the specific statute creating it, but also the cooperative laws of the state and the federal tax law specifically dealing with lending cooperatives. CFAB pays full federal taxes, unlike a State agency or department.

We appreciate that performance of an audit of CFAB has posed a difficult problem for you. While somewhat unique to Alaska, organizations such as CFAB are widespread in the lower states. They are certainly the business of the Bank for Cooperatives and are among the clients of our CPA firm, Price Waterhouse & Co. In fact, Price Waterhouse is considered to be among the

best in the practice of cooperative accounting, management and tax practice. It lists among its clients some of larger cooperatives in the United States. Using their experience, and with a number of comparisons to draw from, they have audited CFAB and found everything to be in order and within the context of proper operation.

Being a CPA yourself, you are well aware of the Generally Accepted Auditing Standards imposed upon members of your profession. Among these are the matters of relevance, materiality, and context. It appears that items reported in your letter have been taken out of context and included without review and full understanding of the circumstances surrounding them. There is no stated standard of comparison used in the determination of significance.

Development of your report on the basis of inadequate understanding of CFAB, its purposes, and the requirements of operation imposed upon it causes the Board of Directors of CFAB tremendous concern. Presented in the fashion of your letter, without standards of acceptable comparison, provides the public reader no basis upon which to draw judgment. This may unjustly tarnish the reputation of Management and of the members of the Board, as well as diminish the willingness of some borrowers to do business with the Cooperative. In turn, the private stockholders of CFAB will be injured.

We will comment on each of the items raised in your letter.

Recommendation No. 1 is a good point and one previously raised by our CPA's in the course of completing their procedural audit. That point has been corrected both by requirement of borrower-provided insurance and by CFAB obtaining a blanket policy.

Recommendation No. 2 regards the compensation of Board members for per diem expenses. There is an alternate to fixed per diem provided for in the regulations pursuant to which CFAB has established its policies for board reimbursement. We have asked our attorneys to review that section in the case we have misinterpreted the details of application. If we find that we have, we will, naturally, correct procedures in the future.

In the evaluation of expenses, one must relate them to the mission, goals, objectives, and the business framework in which CFAB operates. While CFAB has initial investment funds from the State, it receives no other support and must repay the State within a specified period of time. Viewed as a benefit on the one side, it is a large financial obligation on the other. CFAB must develop an operation capable of attracting the hundreds of millions of dollars from outside lenders necessary to fulfill its mission and purpose. While the mission of providing loans to fishing and agriculture may appear the same as those given to a State loan program, or to AIDA, the road to their accomplishment is much more complex given the lack of State funding or State guarantees.

In addressing the mission imposed by the Legislature and in creating the organization to meet that mission, the Board of Directors has established policies, philosophies, and procedures which insure the long term viability of the organization. This same organization is established to meet the standards and the expectations of the national and international financial communities upon which we must rely now and into the future. It should be noted that CFAB now has correspondent relationships with Denmark, Danish banks, and Norwegian financial institutions, and is opening negotiations with Japanese and Canadian banks, as well as large commercial banks in the "Lower 48."

To establish its standards of operation, the board has closely examined the standards of other similar institutions. We have determined that CFAB's standards are in all cases within comparable standards, as are its expenses. All expenses are deemed necessary to CFAB's business purpose and are according to budgets established in conjunction with Management.

With regard to the items specified in your letter:

A. Furniture, Fixtures and Leasehold Improvements

The expenses of furnishing the executive offices of the Cooperative are in line with similar expenses at the Spokane Bank for Cooperatives and other financial institutions. Neither the cost nor the decor is inconsistent with the standards of other institutions in Anchorage of comparable size.

They are intended to establish the proper decorum and to relate to the type of visitor frequenting the offices. These include trade missions, ambassadors, presidents of large corporations, and executives from among the international financial community. While Steel Case desks may well serve the necessary business environment of a public agency, they do not serve the demands of this Cooperative. Decor of that nature would only serve to reinforce a "poor country cousin" image. In creating the office environment, CFAB took great care in its design and decoration to meet the needs of its many categories of users. It is designed to be a comfortable place to work for those who spend the majority of their days here; a relaxing, warm place to visit for the borrower who is normally intimidated by banks and bankers; and a tasteful, professional environment for the executive businessman.

A careful watch was made of expenses, and a great deal was achieved by the use of highly qualified decorators with experience in office decor.

The conference area you have mistakenly inferred to be restricted to executive personnel is a general conference area decorated to fit the general office decor and serve the purposes previously described, while accommodating the larger meetings regularly held at the office.

The Juneau apartment is widely used by the Board and staff of the Bank. It was originally rented during the formation stages of the Cooperative during which time the Board and the staff were spending large amount of time on a continuing basis in Juneau. It provided a meeting place and proved cost beneficial against the use of hotels. Retention of the apartment has been reviewed periodically and will be again in the future. Having decided to open our Southeastern office in Ketchikan, but having need to conduct business in Juneau on a regular basis, it has been determined that CFAB requires some form of permanent location from which to operate and hold meetings while in that town. The combination of apartment and office showed clearly to be the most economical alternative versus renting an office on a per square foot basis and using hotels. The wallpaper itself was hung by staff and various items of sparse decoration have been contributed by the Board and the staff.

#### B. Artwork

It should be noted that you have listed all, not a sample, of the artwork purchased by CFAB. The use of the word "Sample" is editorially misleading.

The artwork in the Anchorage office was purchased or commissioned from local artists to fit both the decor and the operation of the office. The expenses of the works are consistent with the art and are under the value of the pieces in the present market. The cost of the individual works does not come close to the cost of the works contained in the State collection, some of which adorn the walls of legislative offices, nor in the collections of other private businesses in Alaska. All pieces in our offices depict agriculture or fishing, with Alaska overtones.

#### C. Automobiles

Transportation is a necessary part of our business, as it is with most. Not being a State agency, CFAB does not have access to State pool vehicles, nor was such access intended.

It will be noted that the cars purchased by the Cooperative are small, economy vehicles which meet the demands of Alaska conditions.

Provision of automobiles to members of the executive staff, both for business and personal use, is a normal business practice and one necessary to CFAB if it is to attract the personnel needed. You will note that the car provided to the President is not the high priced, luxury vehicle customary to presidents of other Anchorage financial institutions, but rather a Chevrolet with a monthly lease payment far below comparable costs. The automobile provided for the use of the Senior Vice President-Administration is also available for general Bank use and is assigned to him in lieu of other compensation. The gasoline provided to the Senior Vice

President-Credit only partially offsets the luxury vehicle provided by his previous employer, another Anchorage bank.

The decision to purchase automobiles was made after considering the life cycle costs and discounted cash outflows of purchased vehicles over locally available leases or reimbursement for personally provided automobiles.

#### D. Salary and Benefits

The attraction and retention of the best people is deemed to be of vital importance to the business of the Cooperative. It is a highly accepted business principal that people capital is more important than dollar capital. To attract and retain these people requires that the Cooperative provide competitive salaries, benefits, working conditions, and opportunities. In establishing these benefits, the Board annually reviews the market, both in Alaska and in the "Lower 48", to determine levels and trends.

It should be noted that CFAB pays the full cost of the PERS coverage, including an allocation for administration. No cost is borne by the State. CFAB's involvement with PERS and other State benefit programs will be deleted with passage of current legislation supported by the Board.

The bonus program has been widely covered and explained in detail, not only to the Budget and Audit Committee of the Legislature, but also to all Senators and House members. It has proven to be an effective tool resulting in rapid accomplishment of goals and objectives. Bonuses are paid for productivity, not for the mere occupation of space. In widely read coverage of CFAB pay and bonus programs, the Anchorage Times reported that CFAB's remuneration to employees, including bonuses, was not out of line with industry standards.

Staff room expenses for coffee, tea, etc. are common for business and a common courtesy extended to visitors and staff of most businesses and even some State offices. The figures quoted include stocking of cups, plates, and other necessary kitchen items.

Tickets to the Repertory Theatre were erroneously listed under benefits and should have been posted to entertainment. While listed under one employee name, they are used by other members of the staff to entertain customers, consultants, and other vendors, as well as support the theatre. If you will check the list of donors and ticket holders to the Rep and other performing arts, you will find a large portion of patronage comes from businesses.

A Christmas party is also a normal event in the private sector. CFAB also uses the occasion to thank particular vendors, consultants, and suppliers, as well as the spouses of employees

whom we feel contribute to the organization. Facilities available to accommodate groups of any size are limited in Anchorage and never inexpensive. The cost of these Christmas parties is part of the overall employee relations program which has provided the Cooperative with measurable and high levels of achievement. Comparison with other financial institutions would reveal that neither the function nor the per person cost is out of line.

In the last paragraph of this section, you have listed other staff benefits of \$6,076 and other personnel expenses of \$15,810. In the former figure, you have double counted an accrual of \$4,551 for the previously listed Christmas dinner and \$345 for tickets to the Repertory Theatre, also previously mentioned. Of the latter, the majority does not represent dinners with interviewees and staff, but rather the expenses of bringing people to Anchorage for interviews; including hotel, meals, car rentals, etc. Naturally, some of the names appearing in those postings will now appear as employees. Also included are a few dinners including employees and primarily involve our branch staffs while in Anchorage for loan presentations, training, etc. If you would have the opportunity to examine the expenses of other businesses, you would find that it is common to carry on business over lunch if it involves something better discussed away from the office or the press of the day's schedule allows only that time.

#### E. Rent

Here, too, you have failed completely to draw comparisons or to consider the full costs of an office. In commenting upon the cost of the office space (also mentioned in our annual report) you have not mentioned the cost of comparable space in Anchorage or within the same building. In making that comparison, one must also consider a number of factors. First is the cost of making necessary tenant improvements such as walls and wiring. Second are the inducements offered by the landlord to obtain the lease. Third is the extra cost of occupancy such as escalator clauses, utilities, and services. And of equal importance is the availability of expansion space during the course of the lease.

After looking at a number of buildings in Anchorage and receiving bids from several, the actual cost of our present location was not only cheaper than the alternatives, but also offered many side benefits, such as central location to staff; adequate, free parking for staff and members; close proximity to our CPAs, attorneys, and insurance brokers who are contacted on a frequent basis; and ease of finding the location for our members and other visitors. Even some State agencies, such as Fish and Game, pay much higher rent. The forecasted cost of a State office building is considerably higher than the figure quoted. One should caution that the disclosure of this rent figure is a violation of our agreement with the landlord, as rents in the building are not the same for all tenants.

In describing the quarters and appointments, particularly in our kitchenettes, you have forgotten to ask questions that would have put many points into perspective. For example, we have doubled the office space since opening and, in so doing, took over the office space previously occupied next to us. That tenant had a kitchenette also, which we have converted into a much needed second conference area. The cost to remove the previously installed appliances exceeded the cost of retaining them. Due to the cost benefit and the convenience of the facility to the staff and clients on that side of the building, they were left. Additionally, the table in that conference room is not natural oak, but rather formica in an oak pattern, as are all of the desks in the area.

If you had surveyed the building, you would have found the kitchenettes to be common in the building and equipped similarly to ours. As can be seen from the one taken over and now used as a conference room, many are larger than the one mistakenly listed as the executive kitchen. Furthermore, if you had observed other floors of the building during the last three and one half months, it would have been noticed, even casually, that oak is the standard material used in all trim, elevators, cabinetry, and other wood surfaces in the building. It is a standard established architectually.

The kitchenette is used often for preparation of lunches for luncheon meetings, saving not only the expense of eating out, but also time during busy days.

#### F. Directors Fees

Directors fees are, by law, left to the discretion of the Board of Directors. CFAB's Board compared compensation paid for other private boards and even some State boards, such as the Permanent Fund. Also, in the consideration was the amount of time necessary to complete the Board function (two days each month for regular meetings) and the lost travel time of one day each way for the majority of members. You should have also found that the Board spends considerable time outside the regular board meetings on behalf of the Cooperative. Rates for this time were compared to consultant time rates and the daily meeting rate. Closer questioning would have revealed that individual Board members bill only a fraction of the time they spend.

You have listed as significant the fact that one member received \$12,438 in consulting and organization fees during an 18 month period. You are referring to the previous Chairman of the Board. During the early organization period of the Cooperative, the Bank had limited staff and those it did have were unfamiliar with much of the workings of the Alaska business system. This individual, at the request of the Board, devoted countless hours to the organizational efforts and brought to the task knowledge and experience not elsewhere available in the organization. His regular business is that of a consultant, together with other

partners, and his income dependent upon hourly billings. He could not afford to devote the time required without proper billing nor would his business partners have allowed it. The time billed was substantially below that applied and the rates below those charged by other consultants and professionals employed by the organization.

#### G. Travel, Lodging and Meals

Foreign travel is a necessary part of CFAB's business. We deal with internationally traded commodities, both in fisheries and agriculture. Likewise, our members have internationally related financial transactions. Markets and practices in other parts of the world have direct impact upon the financial well being of our stockholders.

CFAB has correspondent relationships in Scandanavia, has purchased equipment to aid Alaska's farming community from Denmark, and is beginning negotiations with other foreign banks. These relationships are used not only to provide necessary credit information on receivables financed, but are expected to result in lines of credit enhancing our lending abilities. Provision of knowledgeable and complete lending services to Alaskan fishermen and farmers cannot be accomplished without development of a wide range of international contacts.

You will find that others on the trips listed included representatives of State government and private enterprise. You should also note that the agriculture trip to Denmark was at Denmark's invitation and most were expenses for their account. Further examination of other private and government departments will reveal a wide range of foreign travel. The significance of international markets to Alaska is evidenced, in part, by the fact that the State itself keeps two fully staffed offices overseas, and is considering a third.

It is the policy of the Cooperative to allow travel expenses for spouses if the functions attended normally include spouses as a part of the activities. You will find this to be a similar practice among most Anchorage banks, other businesses, and the Bank for Cooperatives.

You have mistakenly listed a minor amount of \$376 as an expense of a former trip. It is a prepayment of the Munich International Fisheries Conference to be held this October. That conference will be attended by various of our processing members, as well as the Alaska Seafood Marketing Institute. You might also be interested to know that the Alaskans attending the previous conference were highly appreciative of our attendance and remarked that CFAB was the first Alaska financial institution to show sufficient interest in becoming fully involved in learning the industry.

The Senior Vice President-Administration made only one trip to England. He was accompanied by the Vice President of Branch

Administration who is also a vessel surveyor. They were in London to visit the various departments of Lloyds of London, which is the major insurer of vessels in Alaska. In addition to learning about the intricacies of vessel insurance, they also investigated possible criteria for certifying vessel surveyors, as well as ways in which the risk of Alaska fisheries as perceived by Lloyds might be diminished. This would result in substantial savings to our fisheries members. Competence in both insurance and vessel valuation is a vital part of our business.

#### Dinners

In listing 48 dinners over \$100, you have not considered the number of people involved, the purposes of the dinners, or the relationship of those entertained to the business. You also seem to miss the prices charged by the average dinner house in Anchorage that is conducive to a business discussion. In fact, it is one of the items that ranks among the more substantial cost of living differences between Anchorage and elsewhere.

All dinners you have listed were in the normal course of business and involved a defined business purpose. Most of the ten dinners you have listed should be self explanatory given the people attending. Without more detailed reference to dates, it is impossible to describe each one. However, since such dinners are not that common an occurrence, I can clarify specific occasions to help you further understand our business. I will refer to them by the number you have ascribed.

1. This was a dinner that involved the Vice President-Branch Administration who had been offered the job in Anchorage, but had not yet accepted. He was in Anchorage to look over the area with his spouse and look for available housing. Raised in Cordova, both he and his wife were unsure of the move and wanted to become more comfortable with the business climate of the Anchorage office. The dinner was to allow his spouse to become acquainted with other spouses and gain assurances of help and availability of necessary family services. It is common for businesses to have such dinners. They are a selling function necessary to have the right people in the right positions.
6. This bill also included cocktails and dessert for an assortment of legislators, UFA representatives, and CFAB consultants.
8. These dinners also included other members of the staff and possibly their spouses. They were held in conjunction with the normal board meetings. It has been the practice of the Board to continue business through the dinner hours and to use this time to obtain more general and informal information about the operation. They often invite staff members and their wives to learn

about particular jobs within the Cooperative and to give the staff members wider exposure to the business.

10. This dinner included the Senior Vice President-Administration and the prospective Senior Vice President-Credit and their wives. The occasion gave these two people, who are key officers of the Cooperative and who must interface directly on almost every matter, a chance to become better acquainted and form the grounds for needed communication. Again, this is a necessary part of a business operation and normal to private business.

Members of the Board and the Executive staff are professionals in upper income brackets and educational backgrounds. The level of entertainment done is consistent with industry standards.

You have further listed four occasions of other staff dinners. We fail to understand their inclusion. Of the first, you mention several lunches totaling \$137. It is difficult to draw any conclusions from that statement since the context, purpose, and applicability elements are missing from your statement.

The dinners listed for the staff in Seattle were most likely for our participation in the Fish Exposition in Seattle during which we had several employees in Seattle to man our booth. The dinners and their prices are normal.

The lunch costing \$172 was a going away luncheon for one of the staff and quite insignificant when compared to the contribution to the Cooperative of the departing member.

The items included in the \$1,331 listed as "Banquets" include the annual meeting of shareholders, a board meeting, the Agriculture Symposium, and a trade delegation.

Miscellaneous expenses listed are for stocking of the office facilities in most cases. Tuxedo rental was for an affair requiring both attendance of the employee and formal wear.

The use of the Alaska Airline Board room is also a necessary part of the business and is used for meetings at the airport with clients and others passing through. It provides private accommodations for such meetings at insignificant annual cost.

#### H. Promotional Costs

Opening parties are a normal part of business and provide a significant show of interest in both the community and the members of the markets served. The opening Anchorage party was attended by close to 100 people, not all of whom had dinner. Both the cost of the affair and the attendance was reasonable by Anchorage business standards. Reference should be made to the recent opening of the Anchorage office of Alaska Pacific Bank, as well as several professional firms entering the Anchorage market. That comparison will show the cost of CFAB's opening dinner to be normal and the affairs to be equally frequent among those

companies.

Similar receptions were deemed essential to each branch office location listed and were structured to fit the norm for such affairs in each area. It is difficult to envision an opening reception in an area to introduce a new company and new services without representatives of the company present. It would be particularly insulting to CFAB members and potential members for the members of the Board and senior officers not to be present. Additionally, the occasions provide opportunity to the Board and Management to become quickly familiar with the people in the communities they will be serving. Use of charter aircraft when transporting a larger number of people offers a large cost benefit.

As a private company with legislative needs, good governmental relations is a normal and necessary function. The legislative reception, which was well attended, provided the staff and the Board the opportunity to discuss CFAB's needs and operation with legislators who would be unavailable in another form. Such receptions and dinners are also normal to the legislative process and Juneau experiences them on a regular basis.

Gortex jackets were given to the staff as both a traveling uniform providing quick and easy identification and as a functional garment for the conditions in which they travel. Provision of garments is not at all uncommon in the fishing industry. The price you have quoted included 1000 patches costing \$1,200 to be used on hats and other promotions. Your attention is drawn to a feature story in a recent edition of the Fishermens Journal specifying the importance of these hats and logos within the fishing and agriculture industries, both in Alaska and the "Lower 48."

Tide books are an essential item to all fishermen and are used by all our members and potential member stockholders. Constantly referred to by the fishermen, they are an extremely effective media through which to provide facts about CFAB and its available services.

The cookbooks are a part of a visual program on the use of the microwave in cooking fish. It is part of a national promotional campaign produced by the National Fisheries Institute of which CFAB is a member. The campaign has been participated in by numerous processors and marketers. CFAB makes its slide presentation and cookbooks available to home economics groups, businessmen selling microwaves, and cooking classes. It was recently prominently used by the Alaska Seafood Marketing Institute in a show promoting Alaska fisheries products in the Mid-West and will be used again by the same group in Germany. Development of these types of programs falls clearly within the legislative mandate.

The annual reports ordered by the Cooperative were 1000, not 500. The cost of producing that report was above that planned

because of a number of reasons, including the original photographer leaving the state with the pictures, requiring them to be reshot by another photographer; special, quick turnaround time by the printer and separator due to the time constraint of legislatively imposed March membership meeting which left only two weeks between completion of the audit and the meeting. These unusual costs associated with our first annual report should not occur again with future reports. However, the expense of an annual report is an absolutely necessary expense of our business. It is the primary publication supplied by us to our members, legislators, the Governor, the public, as well as our creditors and vendors, and is considered by members of the financial community as an essential communications tool. Put together as CFAB's was, the vehicle provides not only the opportunity to present a company's financial picture, but the entire framework of the business.

#### I. Review of Board Minutes

Your remarks in this section are truly out of context and without precedent. We can find no reason or justification for their inclusion in your report. Even given the consideration of the inappropriate standards used in your audit of CFAB, it is particularly unique to include two items on which the Board of Directors has taken negative action.

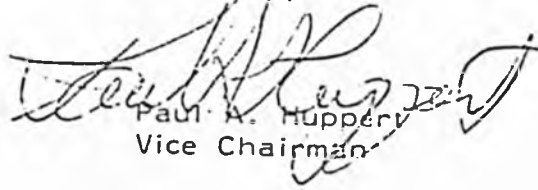
The items presented include no reference to the decision making process involved, the cost to benefit relationships derived, or the purpose of the discussions. Foreign travel for education in the fisheries -- the predominant market we serve -- is a viable item to review. The availability of an extremely low airfare opened an otherwise costly opportunity for discussion. An aircraft in a state dependent upon air travel and for an organization traveling to all parts of the state is also an item one would expect a board to discuss.

Are you suggesting that there are items forbidden to the Board for discussion and review in the interest of the corporation they are responsible for? Are you further implying that a board should stand in criticism for reviewing all the alternatives open to their business? Or are you suggesting that the board minutes reflect only those items which you, a staff employee of the State, consider to be proper, palatable and in keeping with your particular personal standards? I am sure you are aware that foreign travel is extensive among Alaskans and is a subject reflected in the minutes of many boards. Additionally, the State of Alaska itself has considered purchase or lease of a State plane on several occasions.

Mr. Harris, we appreciate the efforts that you and your staff put into the audit. Danna worked hard and fit in well with the office staff. We are sorry that your understanding was not more complete, enabling your audit to be of a more meaningful nature. Your report only proves that a private business operating

under the standards required by the private market cannot be audited against standards commonly used by the Legislative Auditor.

Sincerely,



Paul A. Huppert  
Vice Chairman

sd

Alaska State Legislature

SENATOR  
ARLISS STURGULEWSKI

COMMITTEES  
CHAIRMAN  
Legislative Budget & Audit

Community & Regional Affairs  
Finance  
Resources



511 W. FOURTH AVE., SUITE 1  
ANCHORAGE, ALASKA 99501  
(907) 274-1627/1628

While In Juneau  
POUCH V  
JUNEAU, ALASKA 99811  
(907) 466-3818

Senate RECEIVED

SEP 02 1981

LEGISLATIVE  
AUDIT

MEMORANDUM

02 September 1981

TO: Glen Svendsen  
Special Assistant

FROM: Senator Arliss Sturgulewski *AS*  
Chairman, Legislative Budget & Audit Committee

RE: Commercial Fishing & Agriculture Bank

Enclosed please find the letter sent by Roseleen Moore in response to my earlier question regarding issues raised by individual Legislative Budget & Audit Committee members. Will you have Betty send out a copy of my original letter plus this response to all committee members?

I am sending a copy of Roseleen Moore's response as well as a copy of this memo to Jerry Wilkerson.



2550 Denali Street, Suite 1201  
P.O. Box 4-2070  
Anchorage, Alaska 99509  
(907) 276-2007  
SRA 90-B  
Homer, Alaska 99603  
(907) 235-8234

Roseleen "Snooks" Moore  
Chairman

August 27, 1981

The Honorable Arliss Sturgulewski  
2957 Sheldon Jackson Street  
Anchorage, Alaska 99504

Dear Senator Sturgulewski:

We appreciate the findings on management expenditures and the Board has taken steps to reevaluate and correct our current budget and will definitely take these findings into account in the budget preparation for the coming year.

As you can well appreciate, the repayment of the State is a multi-faceted problem that must be approached carefully. The impact upon CFAB and its ability to meet its mission, its goals, and the expectations of the communities it serves will be significantly affected by the course taken. There should be no doubt in the minds of the legislators that CFAB takes the responsibility of meeting its obligation seriously. Repayment of the State is of paramount importance to the Board and Management of CFAB and is of significance in established policies, budgets, and plans.

We are in the process of examining all the alternative means to accomplish the legislative imperative that the Class C stock be repaid by the end of 20 years. Our decision will be reached as part of the planning process at the December board meeting. You can be assured that our direction will be based upon our judgment and will best serve the two industries we serve as well as the original intent of the legislation.

Sincerely,

Roseleen "Snooks" Moore

sd

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

ROOM 508  
CAPITOL BUILDING  
POUCH V  
JUNEAU, ALASKA 99811

907-465-3818

907-465-3810

17 July 1981

Ms. Roseleen Moore  
Chairperson, Alaska Commercial  
Fishing & Agriculture Bank  
SRA Box 90-B  
Homer, Alaska 99603

Dear Ms. Moore:

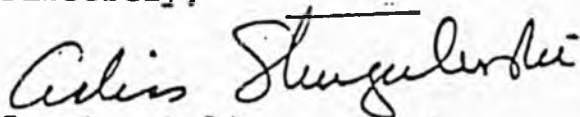
As you know, an audit of the Alaska Commercial Fishing and Agriculture Bank is being conducted by the Legislative Audit Division. At the July 15, 1981 meeting of the Legislative Budget and Audit Committee, the preliminary findings of that audit were presented for Committee review. That preliminary audit has been forwarded to you for response under separate cover.

The Committee has directed that two issues which arose in executive session regarding those preliminary findings be presented for your response. First, the Committee expressed strong concern over questionable management expenditures noted in the preliminary audit. The Committee encourages CFAB to thoroughly address those findings and recommendations in its formal response to this audit.

The Committee also requests that CFAB indicate how it intends to approach repayment of State funds provided for CFAB's capitalization. During this past legislative session, a number of approaches to repayment or amortization of the State's investment were discussed. Approaches ranged from a strict amortization schedule to the possibly politically unacceptable idea of establishing a sinking fund within CFAB that would make a single repayment at the end of the maximum twenty year period. The Committee found that a definite plan for repayment of these funds is of fiscal concern to the Legislature, especially as these funds were provided at no interest to CFAB. In short, the Committee looks forward to a proposal from CFAB on its plans for repayment of the State's funds.

Your timely response to these two requests will be appreciated by the Committee. Any questions or clarification of these requests can be directed to me.

Sincerely,

A handwritten signature in cursive script that reads "Arliss Sturgulewski". The signature is written in dark ink and is positioned above the typed name.

Senator Arliss Sturgulewski  
Chairman, Legislative Budget &  
Audit Committee

cc: All members - Legislative  
Budget & Audit Committee

# State of Alaska



Department of Commerce and Economic Development

## Certificate

The undersigned, as Commissioner of Commerce and Economic Development, of the State of Alaska, hereby certifies that duplicate originals of the Articles of Incorporation of Alaska Commercial Fishing and Agriculture Bank

duly signed and verified pursuant to the provisions of the Alaska Cooperative Corporation Act, have been received in this office and are found to conform to law.

ACCORDINGLY the undersigned, as such Commissioner of Commerce and Economic Development, and by virtue of the authority vested in him by law hereby issues this Certificate of Incorporation of

Alaska Commercial Fishing and Agriculture Bank

and attaches hereto a duplicate original of the Articles of Incorporation.



IN WITNESS WHEREOF, I have hereunto set my hand and  
seal this 15th day of May, 1954, at Anchorage, Alaska.

CHARLES E. MOORE  
COMMISSIONER OF COMMERCE  
AND ECONOMIC DEVELOPMENT

MAY 4 1979

ARTICLES OF INCORPORATION

OF

DEPARTMENT OF COMMERCE  
& ECONOMIC DEVELOPMENT

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

The undersigned natural persons of the age of 19 years, or more, acting as incorporators of a cooperative corporation (hereinafter referred to as the "Bank") under the provisions of the Alaska Cooperative Corporation Act (hereinafter referred to as the "Act") and Alaska Statutes 44.54, as amended, adopt the following Articles of Incorporation.

ARTICLE I

Name

The name of the Bank is Alaska Commercial Fishing and Agriculture Bank.

ARTICLE II

Duration

The period of duration of the Bank is perpetual.

ARTICLE III

Purpose and Powers

Section 1. The purposes of the Bank are to:

- (1) provide sources of credit for Alaskan agriculture and fishing business;
- (2) encourage utilization of the fisheries off the coast of Alaska that have been underutilized in the past by local fishermen;
- (3) encourage harvesting, processing and marketing of underutilized fish species;
- (4) encourage technological development in the harvesting and processing of underutilized fish species;
- (5) promote the more rapid development of agriculture.

Section 2. In order to accomplish its purposes the Bank shall have the power to:

(1) make variable rate or fixed rate loans to individuals who are residents and who are engaged in commercial agriculture or fishing, including harvesters, processors and marketers, or to corporations, partnerships or joint ventures primarily engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of the State of Alaska and a majority of the owners of which are residents of the State of Alaska, if the recipient of the loan is a shareholder of the Bank; however, the Bank may make a loan under this paragraph to a corporation, partnership, or joint venture for the purchase of a new or existing fishing vessel or for the repair or renovation of an existing fishing vessel, the primary purpose of which is to commercially harvest fishery resources, only if the corporation, partnership, or joint venture is wholly owned and controlled by residents of the State of Alaska and if the recipient of the loan is a shareholder of the Bank;

(2) make and alter By-Laws necessary or desirable to carry out its corporate functions;

(3) establish amortization plans for repayment of loans, which may include extensions for poor fishing or farming seasons;

(4) enter into agreements with regional institutions of the federal farm credit system, private lending institutions, and other State of Alaska societies or agencies of the federal government, to carry out the purposes of Alaska Statutes 44.54, as amended;

(5) adopt, alter, and use a corporate seal;

(6) sue and be sued in the name of the Bank;

(7) issue bonds to carry out any of its corporate purposes and powers;

(8) sell, lease as lessor or lessee, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the Board of Directors, the action is in furtherance of its corporate purposes;

(9) incur secondary liability by guaranty or endorsement of the obligations of another corporation or legal entity when, in the judgment of the Board of Directors, the action is in furtherance of its corporate purposes;

(10) make loans as provided in (1) of this section in participation with financial institutions, and establish and regulate the terms of the loans;

(11) make contracts and execute instruments necessary or convenient in the exercise of its corporate powers;

(12) acquire by purchase, lease, bequest, devise, gift, the satisfaction of debts, or the foreclosure of mortgages, and hold, maintain, use, operate, and convey real or personal property;

(13) borrow money and issue secured and unsecured evidence of indebtedness for a corporate purpose or to fund, refund, pay, or discharge outstanding obligations, and enter agreements and contracts concerning these obligations;

(14) secure the payment of its obligations by pledge or mortgage or other lien on its contracts, revenues, income, or property;

(15) appoint officers, employees, trustees for certificate holders, and agents, and prescribe their powers and duties;

(16) provide technical services to shareholders; for the purposes of this paragraph, "technical services" includes services that will enhance the ability of the shareholder to obtain financial assistance from the Bank;

(17) make loans, as provided in (1) of this section, secured by liens subordinate to valid first liens and security agreements granted to private lending institutions, including institutions of the federal farm credit system;

(18) participate with State of Alaska departments and agencies in formulating policy and in planning for the development of commercial fishing and agriculture in Alaska;

(19) do what is necessary or desirable to carry out the corporate purposes and powers expressed or implied in Alaska Statutes 44.54, as amended;

(19) make loans for limited entry permits to individual commercial fishermen who have been residents of the State of Alaska for a continuous period of five years immediately preceding the date of application for a loan, who have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for any one of the past five years, and who have actively participated in the fishery during that period, provided that any such loans are subject to the provisions of AS 44.54.230.

(21) exercise all those powers of a cooperative set out in AS 10.15.010.

Section 3. To have and exercise all powers, privileges and rights conferred on cooperatives by the laws of Alaska, and all powers and rights conducive to carrying out the purposes for which the Bank is formed, except such as are inconsistent with the express provisions of the legislation under which the Bank is incorporated.

#### ARTICLE IV

##### Capitalization, Membership and Ownership Restrictions

Section 1. The amount of the authorized stock of the Bank shall be Eighty Million, One Hundred Thousand Dollars (\$80,100,000) which shall consist of Ten Thousand (10,000) shares of Membership Stock (Class A) of the par value of Ten Dollars (\$10.00) each; Four Hundred Thousand (400,000) shares of Preferred Stock (Class B) of the par value of One Hundred Dollars (\$100.00) each; and Four Thousand (4,000) shares of Special Preferred Stock (Class C) of the par value of Ten Thousand Dollars (\$10,000.00) each.

Section 2. Membership in the Bank is limited to those engaged in the commercial fishing and agriculture industries and is conditioned on ownership of a share of Membership Stock (Class A) in the Bank. Only such individuals who are residents of Alaska or corporations, partnerships or joint ventures primarily engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of Alaska and a majority of the owners of which are residents of Alaska, shall be eligible to purchase and/or own the Class A Stock of the Bank. No member may own more than one share of Class A Stock and each member is entitled to one vote in the affairs of the Bank, provided that only members who have been patrons of and borrowers from the Bank within two years from the commencement of voting on any matter requiring a vote of the members shall be entitled to vote thereon. No dividends shall be paid on Class A Stock.

Section 3. Preferred Stock (Class B) may be issued to, and may only be held by, members of the Bank, but Class B Stock shall not have any voting powers or rights nor participate in the management of the affairs of the Bank, except to the extent specifically so provided by the Act. Such vote shall be in addition to any vote to which a holder of Class B Stock may be entitled as a member. The Board of Directors of the Bank may declare dividends payable in stock or cash upon Class B Stock, but the value of any such dividends paid annually to any shareholder shall not exceed an amount equal to 10% of the par value of the Class B Stock owned by that shareholder.

Section 4. Special Preferred Stock (Class C) may be issued to the State of Alaska upon payment therefor pursuant to the provisions of AS 44.54.010. Class C Stock shall in no event have voting rights, nor may the Board of Directors pay a dividend upon Class C Stock.

Section 5. The stock of the Bank may be transferred only with the prior consent of the Board of Directors and then only to persons eligible to hold the same. No purported assignment or transfer of stock made without the consent of the Board of Directors or made to any person not eligible to hold the same shall pass any rights or privileges on account of such stock or vote or voice in the management or affairs of the Bank.

Section 6. The outstanding Class B and Class C Stock of the Bank may be retired in whole or in part by the Bank at any time by order of the Board of Directors upon paying to its holders the par value of their shares plus accrued and unpaid dividends, if any, upon the Class B Stock. Upon the surrender of the certificate evidencing such a share the Board of Directors may recall Class A Stock upon termination of membership. The consideration paid for Class A Stock recalled shall be the par value of the share.

#### ARTICLE V

##### Fiscal Policy and Internal Affairs

Matters pertaining to fiscal policy, nature and type of equities and credits, if any, other than stock, and the rights and priorities thereof, and like matters relating to the patrons of the Bank and to the internal affairs of the Bank shall be determined and fixed in the By-Laws. The power to alter, amend or repeal the By-Laws is vested in the Board of Directors.

## ARTICLE VI

### Dissolution

Section 1. Upon dissolution the assets of the Bank shall be distributed as follows:

- (1) To pay the cost of dissolution.
- (2) To pay any liabilities.
- (3) To pay the par value of the outstanding Special Preferred Stock (Class C).
- (4) To pay the par value of the outstanding Preferred Stock (Class B) and any other form of equity certificate outstanding.
- (5) To pay the par value of the outstanding Membership Stock (Class A).
- (6) To pay the Reserve Fund book entry holders, if and to the extent a Reserve Fund is established pursuant to the By-Laws, in full or pro-rata without priority the face amount of their book entry as shown on the books of the Bank.
- (7) The balance of all Bank assets shall then be distributed, without priority, to the holders of Retained Patronage Earnings, as this term may be defined in the By-Laws, in proportion to their respective credits thereof as shown on the books of the Bank.

Section 2. In the case of a vote on a resolution which would dissolve the Bank, a holder of Class B Stock may cast one vote, in addition to any vote to which he may be entitled as a member, regardless of the dollar amount of Class B Stock held by him. Passage of such a resolution for dissolution requires a majority of the authorized Class B shareholder votes cast, as well as the affirmative vote of two-thirds of the member votes cast. Dissolution may also occur in any event pursuant to the provisions of AS 44.0010.

## ARTICLE VII

Address of Initial Registered Office  
And Name of Initial Registered Agent

The initial registered office of the Bank will be the Alaska Department of Commerce and Economic Development, 9th Floor, New State Office Building, 311 Williamson Avenue, Juneau, Alaska; the mailing address of which is Pouch E, Juneau, Alaska 99811. The initial registered agent of the Bank will be Frank M. Homan, at the above address.

## ARTICLE VIII

### Board of Directors

Section 1. The management of the Bank shall be vested in a board of seven (7) directors, at least one of whom shall be an Alaska farmer with at least ten (10) years of Alaskan farm experience, who shall initially be appointed by the Governor of Alaska pursuant to AS 44.54.020 and AS 44.54.090.

Initial terms of the first five members appointed to the Board of Directors shall be two members serving until the first annual membership meeting of the Bank, two members serving until the second annual membership meeting of the Bank, and one member serving until the third annual membership meeting of the Bank. Thereafter these directors, who must be members qualified to vote and at least one of whom shall be an Alaska farmer with at least ten (10) years of Alaskan farm experience, shall be elected by the members at the annual meeting as provided in the By-Laws and shall hold office for three (3) years and until a successor shall have been elected and qualified.

At the time of the first annual membership meeting of the Bank two additional directors shall be appointed by the Governor of Alaska and shall serve initial terms expiring at the time of the second and third annual membership meetings of the Bank, respectively. Thereafter the Governor of Alaska shall continue to appoint or reappoint two directors to serve terms of three (3) years until such time as the Bank has repurchased all of the Class C Stock from the State of Alaska. After repurchase is completed, all directors shall be elected by the members commencing upon the expiration of the term of each appointed director then serving.

Section 2. The names and addresses of the individuals constituting the initial Board of Directors of the Bank are:

<u>Name</u>	<u>Address</u>
Franz M. Homan	Montenall Building 326 Fourth St. #1104 Juneau, Alaska 99801
Paul Huppert	Box 858 Palmer, Alaska 99645
Byron Mallott	Box 322 Yakutat, Alaska 99689

Dale R. Pihiman

Box 7814  
Ketchikan, Alaska 99901

Robert M. Thorstenson

4241 21st Ave. W.,  
Seattle, Washington 98199

#### ARTICLE IX

##### Data Respecting Incorporators

The names and addresses of the incorporators of the Bank are as follows:

<u>Name</u>	<u>Address</u>
Frank M. Homan	Mendenhall Building 326 Fourth St #1104 Juneau, Alaska 99801
Paul Huppert	Box 858 Palmer, Alaska 99645
Byron Mallott	Box 322 Yakutat, Alaska 99689
Dale R. Pihiman	Box 7814 Ketchikan, Alaska 99901
Robert M. Thorstenson	4241 21st Ave. W., Seattle, Washington 98199

#### ARTICLE X

##### Amendments

The Bank may amend these Articles from time to time pursuant to the Act. Provided, however, that in the case of a vote on an amendment which would affect a holder of Class B Stock, a Class B stockholder shall be entitled to cast one vote, in addition to any vote to which he may be entitled as a member, regardless of the dollar amount of Class B Stock held by him. Provided, further, that in the case of an amendment which would affect holders of Class B Stock, the proposed amendment is adopted only if it receives a majority of the Class B shareholder votes cast, as well as the affirmative vote of a majority of member votes cast.

IN WITNESS WHEREOF, the undersigned, being all of the incorporators, as entered in Article IX, execute these

Articles and certify to the truth of the facts therein stated, this 4th day of May, 1979.

Frank M. Homan

Robert M. Thorstenson

Paul Huppert

Byron Mallot

Dale R. Pihlman

STATE OF ALASKA    )  
                          ) ss.  
FIRST DISTRICT    )

I, the undersigned, a Notary Public, duly commissioned to take acknowledgements and administer oaths in the State of Alaska, certify that FRANK M. HOMAN, PAUL HUPPERT, BYRON MALLOT, DALE R. PIHLMAN, and ROBERT M. THORSTENSON, being all of the incorporators referred to in the foregoing Articles of Incorporation, personally appeared before me and swore to the truth of the facts therein stated.

WITNESS my hand and official seal this 4th day of May, 1979.

Byron Mallot  
Notary Public in and for Alaska  
My Commission Expires: \_\_\_\_\_

ERIC E. WOHLFORTH  
TIMOTHY J. WIDOLEYON  
PETER ANGSTADT  
SARAH TORRES

LAW OFFICES  
**WOHLFORTH & FLINT**  
A PROFESSIONAL CORPORATION  
645 B STREET  
ANCHORAGE, ALASKA 99501

TELEPHONE  
AREA CODE 907  
**276-6401**

May 4, 1979

**FILED FOR RECORD  
STATE OF ALASKA**

**MAY 4 1979**

**DEPARTMENT OF COMMERCE  
& ECONOMIC DEVELOPMENT**

Honorable Charles R. Webber, Commissioner  
Department of Commerce and Economic  
Development  
Pouch D  
Juneau, Alaska 99811

Re: Alaska Commercial Fishing and Agriculture  
Bank/Articles of Incorporation

Dear Commissioner Webber:

Enclosed with this letter are two copies of the Articles of Incorporation of the Alaska Commercial Fishing and Agriculture Bank which have been signed and verified by the incorporators and which, on behalf of the Bank, we hereby deliver to you for filing under AS 10.15.335.

The Alaska Commercial Fishing and Agriculture Bank has been formed, as you know, as a result of the Alaska Legislature's passage of an enabling act, Chapter 159, SIA 1978, as amended by SCS SSRB 30 am S of the Eleventh Legislature, First Session. I believe you will find that the Articles of Incorporation tendered to you today for filing conform with the above legislation (codified as AS 44.54), as well as with the provisions of the Alaska Cooperative Corporation Act.

No filing fees are enclosed as any applicable fees have been waived pursuant to AS 44.54.030. However, your advice is solicited at some time prior to August 15, 1979 as to whether the Legislature intended by this waiver of filing fees to include the annual license fee, for fiscal year 1980 and subsequent years, required by AS 10.15.530.

Your assistance, and that of Dick Bakus and the other members of your Department, during the formation of the Alaska Commercial Fishing and Agriculture Bank has been

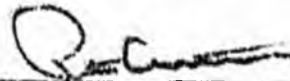
Honorable Charles R. Webber, Commissioner  
May 4, 1979  
Page Two

Invaluable and we look forward to a continuation of that  
close working relationship.

Very truly yours,

WOHLFORTH & FLINT

By



---

Pete Argetsinger

PA/1h

Encl: Articles of Incorporation in duplicate  
cc: Board of Directors, Alaska Commercial Fishing and  
Agriculture Bank  
Richard H. Ekins, Director, Division of Economic  
Enterprise, Department of Commerce & Economic  
Development  
Frank Orth, Financial Consultant to Alaska Commercial  
Fishing and Agriculture Bank

# State of Alaska



Department of Commerce and Economic Development

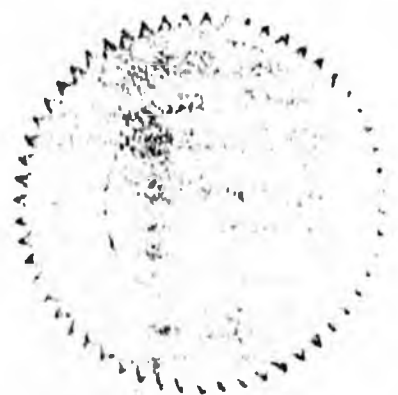
## Certificate

The undersigned, as Commissioner of Commerce and Economic Development of the State of Alaska, hereby certifies that duplicate originals of Articles of Amendment to the Articles of Incorporation of  
ALASKA COMMERCIAL FISHING & AGRI-CULTURE BANK  
duly signed and certified pursuant to the provisions of the Alaska Corporation Act, have been received in this office and are found to conform to law.

ACCORDINGLY the undersigned, as Commissioner of Commerce and Economic Development, and by virtue of the authority vested in him by law, hereby issues this Certificate of Amendment to the Articles of Incorporation of

ALASKA COMMERCIAL FISHING & AGRI-CULTURE BANK

and attaches hereto a duplicate original of the Articles of Amendment.



W. S. GARDNER, Commissioner  
Department of Commerce and Economic Development  
Juneau, Alaska

*W. S. Gardner*  
COMMISSIONER OF COMMERCE  
AND ECONOMIC DEVELOPMENT

20024-D

FILED FOR RECORD  
STATE OF ALASKA

ARTICLES OF AMENDMENT  
TO  
ARTICLES OF INCORPORATION  
OF

JAN 27 1980

DEPARTMENT OF COMMERCE  
& ECONOMIC DEVELOPMENT

ALASKA COMMERCIAL FISHING & AGRICULTURE BANK

1. At a special meeting of the members of the Alaska Commercial Fishing and Agriculture Bank, duly called and held on January 25, 1980, at which a quorum was in attendance and voting throughout, an amendment was adopted by a vote of three ayes, zero nays, changing Section 2 of Article IV of the original Articles of Incorporation to read in full as follows:

Section 2. Membership in the Bank is limited to those engaged in the commercial fishing and agriculture industries and is conditioned on ownership of a share of Membership Stock (Class A) in the Bank. Only such individuals who are residents of Alaska or corporations, partnerships or joint ventures primarily engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of Alaska and a majority of the owners of which are residents of Alaska, shall be eligible to purchase and/or own the Class A Stock of the Bank. No member may own more than one share of Class A Stock and each member is entitled to one vote in the affairs of the Bank, provided that only members who have been patrons or loan borrowers from the Bank within two years from the commencement of voting on any matter requiring a vote of the members shall be entitled to vote thereon, except that any patron of the Bank with a stated Patronage Dividend of \$2,500 or more standing to his credit will, in any event, be allowed to vote. No dividends shall be paid on Class A Stock.

2: At a special meeting of the members of the Alaska Commercial Fishing and Agriculture Bank, duly called and held on January 25, 1980, at which a quorum was in attendance and voting throughout, an amendment was adopted by a vote of three ayes, zero nays, changing Section 4 of Article IV of the original Articles of Incorporation to read in full as follows:

Section 4. Special Preferred Stock (Class C) may be issued to the State of Alaska upon payment therefor pursuant to the provisions of AS 44.54.010. Class C Stock shall in no event have voting rights.

ALASKA COMMERCIAL FISHING & AGRICULTURE BANK

By Frank M. Roman  
Frank M. Roman  
President of the Board

By Galen Schmidt  
Galen Schmidt  
Assistant Secretary

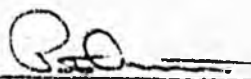
STATE OF ALASKA )  
 ) ss  
THIRD JUDICIAL DISTRICT )

I, GALEN SCHMIDT, being first duly sworn, upon oath, depose and say: I am the Assistant Secretary of THE ALASKA COMMERCIAL FISHING & AGRICULTURE BANK, an Alaska Cooperative. In my capacity as Assistant Secretary I have reviewed the foregoing Articles of Amendment of the Alaska Commercial Fishing and Agriculture Bank and hereby certify that they correctly set forth the text of the Amendments to the Articles of Incorporation of said Alaska Commercial Fishing and Agriculture Bank as adopted by the members on January 25, 1980.

Galen Schmidt  
GALEN SCHMIDT

20024-D

SUBSCRIBED AND SWORN to before me this 21st day of  
February, 1980, at Anchorage, Alaska.



NOTARY PUBLIC in and for Alaska  
My Commission Expires: \_\_\_\_\_

STATE OF ALASKA  
DEPARTMENT OF REVENUE  
TREASURY DIVISION  
Pouch SB  
Juneau, Alaska 99811  
(907) 465-2350

GENERAL AND SEGREGATED STATE PROGRAM FUNDS

MONTHLY INVESTMENT REPORT

February 29, 1984

CONTENTS

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Change in Portfolio Composition	8-11

General and Segregated State Program Funds

COMPOSITION OF INVESTMENT HOLDINGS - Continued

<u>Asset Type</u>	<u>% of Total Cost Value</u>	<u>Current Month</u>	
		<u>Cost</u>	<u>Yield</u>
<u>SEPARATELY INVESTED FUNDS - Continued</u>			
<u>International Airport Fund</u>			
Savings Deposits	0.1	\$ 83,388.61	5.65%
Demand Deposits	0.0	0.0	
Purchased Interest Receivable	0.0	0.0	NA
Repurchase Agreements	0.0	0.0	
Certificates of Deposit	0.0	0.0	
Federal Agency Securities	0.0	0.0	
U.S. Treasury Bills	30.0	41,935,810.99	9.47
U.S. Treasury Money Market	0.0	0.0	
U.S. Treasury Notes	7.1	9,902,215.63	10.72
TOTAL	37.2	51,921,415.23	9.70
TOTAL	100.0%	\$ 139,730,190.87	10.59
<u>ALASKA DEBT CERTIFICATES*</u>	100.0%	\$ 45,179,000.00	8.79
<u>COMMERCIAL FISHING &amp; AGRICULTURE BANK</u>	100.0%	\$ 31,800,000.00	NA
<u>FINANCIAL FUTURES DEPOSITS</u>			
Demand Deposit	2.0%	\$ 1,841.17	NA
U. S. Treasury Bills	98.0	109,044.00	10.08
TOTAL	100.0%	\$ 110,885.17	10.08
<u>SUMMARY OF COMPOSITION</u>			
Operating Account	0.3%	\$ 7,639,299.45	NA
Fixed Income Securities at Bank of America	80.6	1,963,044,102.82	10.16
Loan and Mortgage Investments	10.2	249,238,484.45	7.64
Separately Invested Funds	5.7	139,730,190.87	10.59
Debt Certificates	1.9	45,179,000.00	8.79
Financial Futures Deposits		110,885.17	10.08
Commercial Fishing & Agriculture Bank	1.3	31,800,000.00	NA
TOTAL INVESTMENT HOLDINGS	100.0%	\$2,436,741,962.76	9.74%

29 FEB 1984 STATEMENT

HB

722

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: HB 722  
 Title: Advisory vote on the estab-  
 lishment of a major projects fund.  
 Sponsor: House Judiciary  
 Requestor: \_\_\_\_\_  
 Date of Request: \_\_\_\_\_

FISCAL DETAIL

Agency Affected: Elections  
 Program Category Affected: \_\_\_\_\_  
 BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	- 0 -					
CAPITAL	- 0 -					
REVENUE	- 0 -					

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: House Judiciary Phone: 465-4990  
 Division: [Signature] Date: \_\_\_\_\_

Approved by Commissioner: REP. CHARLIE BUSSELL Date: MAY 23, 1984  
 Agency: \_\_\_\_\_

Distribution (by Agency preparing fiscal note):

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

12/1/83

## MAJOR PROJECTS FUND

### DISCUSSION POINTS

Both legislative bodies are proceeding with legislation to provide for a constitutional amendment dedicating state money to a Major Projects Fund that would specifically fund the proposed Susitna dam. While the details are still under discussion, the basic issues have been largely unaddressed. The following paper outlines some of these issues.

#### Constitutional dedications

The principal issue is, or at least should be, whether it is wise to constitutionally dedicate state funds for a particular purpose. The debate so far has centered on the same petty regional politics that surround the annual division of the capital budget rather than on this major constitutional issue. It would be wise for the legislature and the public alike to remember why the Alaska Constitution includes a prohibition against dedicated funds.

Gordon Harrison explains the prohibition in his A Citizen's Guide to the Constitution of the State of Alaska: "This restriction is intended to prevent the legislature from voluntarily reducing its own freedom and flexibility in financial affairs... The consequence of dedicating tax revenue is that the legislature loses its ability to match expenditures with public needs as these change from year to year. Convention delegates believed that public needs should openly compete for state funds on a regular basis."

The Finance Committee of the Constitutional Convention explained it this way: "Even those persons or interests who seek the dedication of revenues for their own projects will admit that the earmarking of taxes or fees for other interests is a fiscal evil. But if allocation is permitted for one interest, the denial of it to another is difficult, and the more special funds are set up the more difficult it becomes to deny other requests until the point is reached where neither the governor nor the legislature has any real control over the finances of the state."

The one constitutional amendment that Alaskans have approved to allow a dedicated fund is, of course, for the Permanent Fund, a savings account vastly different in concept than the spending plan embodied in the Major Projects Fund.

A constitutionally-dedicated Major Projects Fund is an even more serious affair than the statutorily-earmarked funds that the framers of the Constitution objected to, because this fund would be set in the Constitution and could only be removed by another constitutional amendment.

Alaska's Constitution, we should remember, is the framework for our government. It speaks only to the broad principles of governmental organization and operation. It is a model of simplicity; with its lack of statutory-language clutter, it has seen little need for amendment. It was certainly never intended by its framers to be an appropriations measure.

### The problem

The problem that the Major Projects Fund attempts to respond to is that of appropriating enough money for large capital projects. The argument is that the legislature is unable to fund large projects both because legislators don't know far enough in advance what specific projects to appropriate for (to build up a construction account), and because the nature of the appropriation process encourages the funding of district-sized projects rather than regional ones.

To argue that we must have a dedicated fund to build large projects is to say that the legislature is incapable of making sound spending decisions for today or the future. This may well be true of the present legislature. It is not necessarily true of a future legislature that is willing to break from the porkbarrel appropriation process of the recent-past and take responsibility for meeting the present and future needs of Alaskans.

The real intent of the Major Projects Fund seems to be to tie the hands of future legislatures to openly compete for state dollars to serve Alaska's needs by "constitutionalizing" additional pork-barreling for today's favorite large projects.

Given a more fiscally-responsible legislature, there are numerous unexplored ways of financing large capital projects. Appropriations for any purposes can be made now, with a simple majority vote, and special accounts can be set up to save for approved projects. There are, additionally, many creative ways of financing major projects using various kinds of tax-exempt financing, debt restructuring, and leveraged leasing involving private enterprise and federal tax credits. None of these have been explored because of an assumption that the state has an open checkbook from which to write unlimited checks.

### Effect on state finances

The Governor's MPF provides for a dedication of 10% of all oil revenues through 1990. Using OMB projections and assuming 50th percentile petroleum revenue forecasts, the fund would accrue \$2.2 billion plus interest by 1990.

However, again using OMB calculations, if you assume the more conservative 30th percentile revenues and a yearly capital budget (for traditional capital items) of \$700 million, the total "surplus" revenues available between now and 1990 are only \$320 million. This translates into less than 2% of oil revenues. Therefore, under this scenario, more than 8% of that dedicated to major projects would not be coming from surplus monies but from the "regular" capital budget (and possibly a shrinking operating budget).

Under any scenario, any amount dedicated after 1990 would seriously impact funds available for any other capital or operating items.

It should be noted that the 10% proposed for the MPF is from total petroleum revenue and equates in dollars to approximately the 25% of oil royalties that are dedicated to the Permanent Fund. The stated reason for choosing 10% was, according to OMB, because 10% "is a concept that is easily grasped, approximates the proportion that is currently dedicated to the Permanent Fund, and the amount should not seem overwhelming" and because "this appears to be enough to consider the possibility of financing Susitna sometime in the future."

### Susitna

The MPF has been embraced by the legislature primarily as a means by which to assure the construction of the proposed Susitan Hydroelectric Project.

The Susitna project is still under study by the Alaska Power Authority and no final determination of its economic feasibility has yet been made. The APA expects to have both an update on the project's economics and a proposed financing plan completed later this month.

With a total projected cost for Susitna of \$12-15 billion (nominal dollars), and without a financing plan, the possibility of committing \$2-3 billion to a project that still could not be financed or to partially building a project that could not be completed, is a very serious one. Some legislators have assumed that supplemental federal REA financing will be available, despite the most-current information that it is highly unlikely to be.

By specifying Susitna (or Watana), or even simply hydroelectric projects, in the Constitution, no leeway is allowed for the possibility that full financing may not be obtained, or that other projects, including gas generation from the North Slope, might prove more feasible. (A technological breakthrough in transmitting gas-fired electricity from the North Slope to Fairbanks is entirely possible in the near-future, and would, incidentally, do much more for those tax bases and local employment than Susitna). Any flexibility in responding to public needs, for electricity or anything else, would be lost by enshrining specific projects or types of projects in the Constitution.

### Equity

Given that the MPF would be earmarked for major capital projects most likely to be located in the Railbelt, and that Susitna alone could require more than the entire fund, there is concern for establishing some regional equity.

The Governor addressed the equity issue by requiring that projects funded would have to receive a two-thirds vote of each house. This, he believed, would require gaining the support of rural legislators by providing for their areas in the annual budget.

Recent drafts of the MPF assign a per centage of the fund to the power cost assistance program, to subsize electric rates statewide to the mean rate in the three largest cities (postage stamp concept). This approach removes the general trade-off that would have resulted as all sides maneuvered to reach some reasonable distribution of total funds to a direct horsetrade-- Susitna for PCAP. This again leaves no flexibility for meeting future needs.

### Energy issues

What was initially conceived as a way of providing for major projects of all kinds has now been narrowed to providing electricity.

Providing for power supplies is a real issue, primarily because past attempts have been disasters. There still is no statewide energy planning, the Railbelt's needs have not been addressed in a logical manner, and there's no plan for improving the rural situation except for continuing direct subsidies.

However, there is no reason to assume that a reasonable solution to Alaska's energy needs can not be developed in a logical manner without porkbarreling through the Constitution. Again, the open checkbook and the desire for job-creating capital projects at the expense of planning,

meeting needs, and seeking cost-effective long-term solutions has caused the problem; the solution should clearly not be another open checkbook, projects built for jobs instead of meeting needs, and institutionalizing greater subsidies rather than seeking long-term solutions.

*the administration* ~~The legislature~~ failed in 1981 to separate the issues of power needs from those of creating jobs through capital projects and sharing the oil wealth. Is it necessary to not only repeat that mistake but to incorporate it into the Constitution?

#### The Four Dam Pool

Railbelt legislators believe that those areas of the state that received state funding for dams now owe a debt to the Railbelt for a project of its own. They believe that the Susitna clause in the Energy Program for Alaska assures that the debt will be paid, and that they "hold a hammer" over the Four Dam Pool to guarantee Susitna.

In fact, the Railbelt has no such hammer. The Susitna clause, if left in law, will prevent any utilities from signing power sales contracts for any projects in the Energy Program for Alaska, including Susitna. Moreover, it is more to the advantage of the Railbelt to repeal the clause than to the Four Dam Pool communities. The \$200 million in short-term notes must be paid off (the only alternative is default, an obviously unacceptable one.) There are two ways that it can be paid off. The first is a cash appropriation. The second is by replacing the notes with long-term revenue bonds. This can only be done if power sales contracts are signed, guaranteeing revenues, and contracts will only be signed if the Susitna clause is removed from law. The Four Dam Pool communities know the notes will be paid, one way or the other. The incentive to allow the bond sale, only possible through removal of the clause, lies with the Railbelt, because the entire state will bear the cost if bonds can not be sold. (There are in fact two costs-- the direct \$200 million one and a cost in the bond market, which will look unfavorably upon the failure to bond and will likely charge higher rates in the future as a result.)

#### Details

The draft CS HJR 57 (Resources), as of March 5, in addition to all of the major issues above, includes a number of questionable details.

The dedication is forever, or until the constitutional amendment is repealed by another constitutional amendment. Projected revenues indicate that after 1990 there simply would not be surplus money available, and that operating and capital budgets would have to be reduced drastically. The result of this provision would be that as the state headed for financial disaster, voters would have to choose between amending the Constitution to end the Permanent Fund, the MPF, or both.

The first appropriation made from the MPF must be for Watana, unless a two-thirds vote of each house disapproves the project. Given the financial requirements for Watana, it is unlikely that any other projects would ever receive funding. It is also very possible that, without federal assistance or the sale of tax-exempt bonds, enough money for the project would ever be deposited in the fund, even while causing major restrictions in funding other state capital and operating needs.

The fund revolves, that is, any revenues repaid from appropriations made from it go back to the fund and can only be used for more major

projects. The money is never available to meet any other needs the state may have.

Projects must be owned by the state. This puts the state in direct competition with private enterprise for construction of capital projects, and would prohibit the financing of projects that weren't clearly under state ownership (such as the railroad), that involved any kind of joint ownership, or that involved some private financing such as leveraged leasing.

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST CS FISCAL DETAIL  
 Bill/Resolution No.: HJR 57 (Res) Agency Affected: Elections  
 Title: proposing amendment to Constitution re capital projects Program Category Affected: \_\_\_\_\_  
 Sponsor: Rules BRU, Program or Subprogram(s) Affected: \_\_\_\_\_  
 Requestor: Governor  
 Date of Request: March 5, 1984

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		-0-				
200 TRAVEL		-0-				
300 CONTRACTUAL		1.0				
400 SUPPLIES		-0-				
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		-0-				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING		1.0				
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

the cost of one page in the Election Pamphlet is 1.0

ANALYSIS: Attach a separate page for analysis

Prepared By: T.P. Thoma. Information Officer Phone: 4611  
 Division: Elections Date: \_\_\_\_\_

Approved by Commissioner: *Sally K. Harris* Date: *3/5/84*  
 Agency: *Legislative Finance*

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

**OFFICE OF THE GOVERNOR**

POUCH AD  
JUNEAU, ALASKA 99811  
PHONE: (507) 465-3558

OFFICE OF MANAGEMENT AND BUDGET

DIVISION OF STRATEGIC PLANNING

March 7, 1984

The Honorable Charlie Bussell  
Alaska State House  
Pouch V  
Juneau, AK 99811

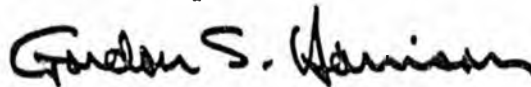
Dear Representative Bussell:

Attached to this letter are projections of State revenue and contributions to the Major Projects Fund as proposed in CSHJR 57. Contribution estimates are based on the assumption that ten percent of oil revenues, excluding corporate income tax on oil and gas producers and property tax on oil and gas production property, would be set aside in the Fund beginning in FY 1986.

These projections incorporate current royalty and severance tax revenue estimates published by the Department of Revenue. Other petroleum and non-petroleum revenue projections are those of OMB, but they are similar to the estimates used by the Department of Revenue internally.

We have analyzed the cash flow of the Major Projects Fund (CSHJR 57) with both 30th and 50th percentile estimates of severance tax and royalty income. Note that our estimates of unrestricted revenue are based on current law, and are not adjusted for deposits into the Fund.

Sincerely,



Gordon S. Harrison  
Associate Director

mm/84I-57

50TH PERCENTILE  
ROYALTIES, SEVERANCE TAXES,  
AND FEDERAL MINERAL REVENUE SHARING PAYMENTS \*  
(\$ Million; Nominal)

	<u>DOR</u> <u>50%</u>	<u>DOR</u> <u>50%</u>	<u>OMB</u> <u>Estimate</u>	
	Gross	Severance	Federal	
FY	Royalties	Taxes	Mineral Revenue Sharing	Total
1986	1,480	1,450	18	2,948
1987	1,670	1,630	18	3,318
1988	1,820	1,520	18	3,358
1989	2,080	1,730	18	3,828
1990	2,140	1,770	18	3,928
1991	1,950	1,540	18	3,508
1992	1,940	1,460	18	3,418
1993	1,940	1,430	18	3,388
1994	1,900	1,370	18	3,288
1995	1,770	1,270	18	3,058
1996	1,650	1,100	18	2,768
1997	1,700	1,140	18	2,858
1998	1,750	1,150	18	2,918

\* The Major Projects Fund proposal for which this was prepared also specifies that ten percent of "mineral lease rentals" and "royalty sale proceeds" be set aside in the Fund. Estimates of royalty sale proceeds are included in the "Gross Royalties" reported above. Mineral lease rentals are a relatively minor source of income (less than Federal mineral revenue sharing payments) and long-range forecasts are not readily available.

OMB

3-7-84

30TH PERCENTILE  
ROYALTIES, SEVERANCE TAXES,  
AND FEDERAL MINERAL REVENUE SHARING PAYMENTS \*  
(\$ Million; Nominal)

FY	DOR <u>30%</u>	DOR <u>30%</u>	OMB <u>Estimate</u>	Total
	Gross Royalties	Severance Taxes	Federal Mineral Revenue Sharing	
1986	1,320	1,300	18	2,638
1987	1,470	1,440	18	2,928
1988	1,590	1,310	18	2,918
1989	1,770	1,460	18	3,248
1990	1,680	1,350	18	3,048
1991	1,560	1,150	18	2,728
1992	1,540	1,090	18	2,648
1993	1,470	990	18	2,478
1994	1,390	920	18	2,328
1995	1,300	880	18	2,198
1996	1,230	760	18	2,008
1997	1,260	770	18	2,048
1998	1,270	790	18	2,078

\* The Major Projects Fund proposal for which this was prepared also specifies that ten percent of "mineral lease rentals" and "royalty sale proceeds" be set aside in the Fund. Estimates of royalty sale proceeds are included in the "Gross Royalties" reported above. Mineral lease rentals are a relatively minor source of income (less than Federal mineral revenue sharing payments) and long-range forecasts are not readily available.

OMB

3-7-84

CONTRIBUTIONS TO MPF  
(\$ Million; Nominal)

<u>FY</u>	<u>At 50th Percentile</u>		<u>At 30th Percentile</u>	
	Total Royalties, Severance Taxes, and FMRS *	10% to MPF	Total Royalties, Severance Taxes, and FMRS *	10% to MPF
1986	2,948	295	2,638	264
1987	3,318	332	2,928	293
1988	3,358	336	2,918	292
1989	3,828	383	3,248	325
1990	3,928	393	3,048	305
1991	3,508	351	2,728	273
1992	3,418	342	2,648	265
1993	3,388	339	2,478	248
1994	3,288	329	2,328	233
1995	3,058	306	2,198	220
1996	2,768	277	2,008	201
1997	2,858	286	2,048	205
1998	2,918	292	2,078	208
TOTAL		4,261		3,332

\* FMRS = Federal mineral revenue sharing payments.

OMB

3-7-84

CONTRIBUTIONS TO PERMANENT FUND  
(S Million; Nominal)

FY	<u>At 50th Percentile</u>			<u>At 30th Percentile</u>		
	Non-Tax. Pet. Rev. (Excl. Bonuses)	Perm. Fund Contribution Rate	Perm. Fund Contributions	Non-Tax. Pet. Rev. (Excl. Bonuses)	Perm. Fund Contribution Rate	Perm. Fund Contributions
1986	1,498	.25	375	1,338	.25	335
1987	1,688	.25	422	1,488	.25	372
1988	1,838	.25	460	1,608	.25	402
1989	2,098	.25	525	1,788	.25	447
1990	2,158	.25	540	1,698	.25	425
1991	1,968	.25	492	1,578	.25	395
1992	1,958	.27	529	1,558	.27	421
1993	1,958	.27	529	1,488	.27	402
1994	1,918	.28	537	1,408	.28	394
1995	1,788	.28	501	1,318	.28	369
1996	1,668	.29	484	1,248	.29	362
1997	1,718	.30	515	1,278	.30	383
1998	1,768	.30	530	1,288	.30	386

OMB

3-7-84

UNRESTRICTED GENERAL FUND REVENUE: 50TH PERCENTILE  
( \$ Million)

FY	50th Percentile * Pet. Rev. Minus P.F. Contr.	OMB	OMB	Unrestricted Gen. Fund Revenue	Unrestricted Gen. Fund Revenue (1985 dollars)
		<u>Estimate</u>	<u>Estimate</u>		
		Investment Income	Other (Non-Pet.) Revenue		
1986	3,124	250	272	3,646	3,440
1987	3,505	250	287	4,042	3,609
1988	3,518	250	303	4,071	3,421
1989	3,964	250	320	4,534	3,598
1990	4,042	250	337	4,629	3,454
1991	3,662	250	356	4,268	3,006
1992	3,557	250	376	4,183	2,789
1993	3,546	250	397	4,193	2,637
1994	3,444	250	420	4,114	2,434
1995	3,252	250	443	3,945	2,204
1996	2,945	250	469	3,664	1,928
1997	3,056	250	495	3,801	1,891
1998	3,120	250	524	3,894	1,828

\* Includes corporate income tax on oil and gas producers and oil and gas production property tax, in addition to royalties, severance taxes, and federal mineral revenue sharing payments.

CMB

3-7-84

UNRESTRICTED GENERAL FUND REVENUE: 30TH PERCENTILE  
(\$ Million)

FY	30th Percentile Pet. Rev. * Minus P.F. Contr.	OMB	OMB	Unrestricted Gen. Fund Revenue	Unrestricted Gen. Fund Revenue (1985 dollars)
		<u>Estimate</u>	<u>Estimate</u>		
		Investment Income	Other (Non-Pet.) Revenue		
1986	2,854	250	272	3,376	3,185
1987	3,165	250	287	3,702	3,305
1988	3,136	250	303	3,689	3,100
1989	3,462	250	320	4,032	3,200
1990	3,277	250	337	3,864	2,884
1991	2,979	250	356	3,585	2,525
1992	2,895	250	376	3,521	2,347
1993	2,763	250	397	3,410	2,145
1994	2,627	250	420	3,297	1,951
1995	2,524	250	443	3,217	1,797
1996	2,307	250	469	3,026	1,593
1997	2,378	250	495	3,123	1,554
1998	2,424	250	524	3,198	1,501

\* Includes corporate income tax on oil and gas producers and oil and gas production property tax, in addition to royalties, severance taxes, and federal mineral revenue sharing payments.

OMB

3-7-84

MPF CUMULATIVE BALANCE: 50TH PERCENTILE  
( \$ Million)

<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>9% Interest</u>	<u>Balance</u>	<u>Balance Date</u>	<u>Balance in \$ 1985 (6% inflation)</u>
1-1-86	295	27	322	12-31-86	304
1-1-87	332	59	713	12-31-87	637
1-1-88	336	94	1,143	12-31-88	961
1-1-89	383	137	1,163	12-31-89	1,320
1-1-90	393	185	2,241	12-31-90	1,672
1-1-91	351	233	2,825	12-31-91	1,989
1-1-92	342	285	3,452	12-31-92	2,301
1-1-93	339	341	4,132	12-31-93	2,599
1-1-94	329	401	4,862	12-31-94	2,877
1-1-95	306	465	5,633	12-31-95	3,147
1-1-96	277	532	6,442	12-31-96	3,391
1-1-97	286	606	7,334	12-31-97	3,649
1-1-98	292	686	8,312	12-31-98	3,902

Assumptions: 1) No expenditures from the fund.

2) MPF lump sum deposit in the middle of the fiscal year.

OMB

3-7-84

MPF CUMULATIVE BALANCE: 30TH PERCENTILE  
(\$ Million)

<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>9% Interest</u>	<u>Balance</u>	<u>Balance Date</u>	<u>Balance in \$ 1985 (6% inflation)</u>
1-1-86	264	24	288	12-31-86	272
1-1-87	293	52	633	12-31-87	565
1-1-88	292	83	1,008	12-31-88	847
1-1-89	325	120	1,453	12-31-89	1,153
1-1-90	305	158	1,916	12-31-90	1,430
1-1-91	273	197	2,386	12-31-91	1,680
1-1-92	265	239	2,890	12-31-92	1,927
1-1-93	248	282	3,420	12-31-93	2,151
1-1-94	233	329	3,982	12-31-94	2,356
1-1-95	220	378	4,580	12-31-95	2,559
1-1-96	201	430	5,211	12-31-96	2,743
1-1-97	205	487	5,903	12-31-97	2,937
1-1-98	208	550	6,661	12-31-98	3,127

OMB

3-7-84



1481257

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 23, 1984

The Honorable Joe Hayes  
Speaker of the House  
Pouch V  
Juneau, AK 99811

Dear Representative Hayes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a joint resolution which proposes an amendment to the Alaska Constitution creating a major projects fund.

As you know, the state treasury will continue to receive substantial petroleum revenues for many years to come. However, our best current estimates indicate that large annual cash surpluses above operating budget requirements will cease to be available by the early 1990's. There is still time to set aside enough for one or more major capital projects that can serve as foundations for Alaska's future economy, but the opportunity to do so will probably be gone within the next six or seven years. Examples of major projects are the Susitna hydroelectric project; road and port infrastructure projects in rural Alaska for support of mining, fishing, and other economic development activities; the Knik Arm Crossing; the Bradley Lake hydroelectric project; Eklutna water supply; and renovation and extension of the Alaska Railroad.

The major projects fund is needed to accumulate the revenue for these large projects. There are two reasons for this. First, for many of these large projects and especially for Susitna, there still is not enough clear information to warrant unequivocal commitment. Actual construction might not begin for a number of years because of the length of time necessary for engineering, environmental study, obtaining permits, and demonstration of economic feasibility.

Ten percent of total petroleum revenue approximates the proportion that is currently dedicated to the permanent fund. For fiscal year 1985, this would require a deposit to the major projects fund of approximately \$300 million, which allows an operating budget of \$2.1 billion, a regular capital budget of \$700 million, loan appropriations of \$260 million, and enough remaining money for debt service and other likely obligations.

There are several other significant features of the amendment.

(1) Deposits to the fund begin in fiscal year 1985 and continue through fiscal year 1990, in keeping with current expectations of future revenue availability.

(2) Disbursements from the fund for a project cannot be made until all sources of the money necessary to complete the project (or a stand-alone phase of a larger project) has been identified and the money committed.

(3) A cost threshold of \$100 million is set for projects to qualify for financing from the fund. This minimum allows reasonable flexibility for covering such projects as the Susitna and Bradley Lake dams, the Knik Crossing, and extension of the Alaska Railroad, without opening the fund to capital projects that can be effectively addressed in the regular capital budget process.

(4) Appropriation bills to spend from the fund must have a two-thirds majority vote in order to pass the legislature. The purpose of this requirement is to assure that projects have state-wide support at the time disbursements are made.

(5) Expenditures from the fund must be recovered and returned to the fund over the operational life of the project. The intent is to recover the principal of the fund from fees generated by the project.

(6) Neither deposits to the fund nor appropriations from the fund would be subject to the appropriation limit.

*Alaska*

MUNICIPAL

*League*

TELEPHONES  
(907) 586-1325  
(907) 586-6526

105 MUNICIPAL WAY, SUITE 301  
JUNEAU, ALASKA 99801

AML RESOLUTION SUPPORTING MAJOR PROJECTS FUND

WHEREAS Governor Sheffield has proposed a major projects fund to accumulate revenues for large capital projects in Alaska; and

WHEREAS Alaskan municipalities and their residents may benefit from the construction of major projects in their areas; and

WHEREAS it is difficult through conventional capital budgeting procedures to secure large direct appropriations for major projects; and

WHEREAS the Governor has indicated that sufficient revenues can be dedicated to this fund without reducing the amount available for other important current state programs; and

WHEREAS such a fund will help prepare the state for the day when annual cash surpluses above operating budget requirements decline substantially;

NOW THEREFORE BE IT RESOLVED by the Board of Directors of the Alaska Municipal League that the Board extends its conceptual support to a major projects fund, as long as the fund does not negatively impact other state programs which support Alaskan municipalities.

Adopted by the AML Board of Directors, January 31, 1984 in Juneau, Alaska.

ALASKA MUNICIPAL LEAGUE

*Betty J. Glick*

Betty J. Glick

President

ATTEST:

*Scott A. Burgess*

Scott A. Burgess

Executive Director

HCR

//

STATE OF ALASKA  
PRELIMINARY STATEMENT OF FISCAL IMPACT

Bill No: HCR 11 Date on Bill: \_\_\_\_\_  
 Title: "Relating to use by petit jurors of headphones"  
 Sponsor: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

			FY 83	FY 84	FY 85	FY 86		
Capital								
Operating								
Total	0		0	0	0	0		

b. Revenues:

Revenue								

2. Source of funds to offset fiscal impact of bill:

3. Assumptions:

4. Disclaimer:

-- This statement has not been reviewed by the OMB in the Office of the Governor. It does not represent the policy of the Sheffield Administration or the final estimate of fiscal impact.

Prepared By: Arthur H. Snowden II Phone: \_\_\_\_\_  
 Division: Alaska Court System, Fiscal Operations Date: 2/15/83  
 Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Department: \_\_\_\_\_

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

2/8/83

HCR

33

Introduced: 4/25/83  
Referred: Judiciary

BY THE RULES COMMITTEE  
BY REQUEST OF THE  
SPECIAL COMMITTEE ON  
LEGISLATIVE REFORM

1 IN THE HOUSE

2

HOUSE CONCURRENT RESOLUTION NO. 33

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

Proposing the addition of a preamble

6

relating to ethics to the Uniform Rules

7

of the Alaska State Legislature.

8

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

9

\* Section 1. The Uniform Rules of the Alaska State Legislature are

10

amended by adding a preamble to read:

11

P R E A M B L E

12

Part 1. CONDUCT OF A LEGISLATOR. (a) A member of the legislature

13

<sup>should</sup> shall at all times engage in conduct that reflects creditably on the legis-

14

lature.

15

(b) A member of the legislature shall adhere to the spirit and

16

the letter of these rules and to other rules and law that govern legisla-

17

tive or official conduct.

18

Part 2. GENERAL PRECEPTS OF ETHICAL CONDUCT. A person in the legis-

19

lative branch should

20

(1) put loyalty to the highest moral principles and to country

21

above loyalty to persons or party;

22

(2) uphold the constitution and laws of the United States and of

23

the State of Alaska and never <sup>knowingly</sup> be a party to their evasion;

24

(3) seek to find and employ more efficient and economical ways

25

of getting tasks accomplished;

26

(4) not discriminate unfairly by the dispensation of special

27

favors or privileges to anyone, whether or not for remuneration;

28

(5) never accept, either personally or for a family member,

29

favors or benefits under circumstances that might be construed by

1 reasonable persons as influencing the performance of official or assigned  
2 duties;

3           (6) make no private promises of a kind binding on the duties of  
4 office, since a public officer or employee has no private word that can  
5 override public duty;

6           (7) engage in no business with the state, either directly or  
7 indirectly, that is inconsistent with the conscientious performance of  
8 official or assigned duties;

9           (8) use no information coming to the public officer or employee  
10 in the performance of government duties as a means for making a private  
11 profit;

12           (9) expose corruption wherever discovered;

13           (10) uphold these principles, ever conscious that public office  
14 is a public trust.

15       Part 3. READING PREAMBLE. When a temporary presiding officer has  
16 assumed the chair under Rule 1(b) the temporary presiding officer shall  
17 have this preamble read to the members before calling for nomination of the  
18 permanent presiding officer.

I. REQUEST  
 Bill/Resolution No. HCR 33  
 Title Proposing the addition of a preamble relating to ethics to the Uniform Rules.  
 Requested by House Judiciary Date April 29, 1983

II. FISCAL DETAIL  
 Agency Affected Legislative Affairs Agency  
 Program Category Affected General Government  
 BRU, Program, Or Subprogram(s) Affected Session  
 (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 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 COMMODITIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS, ETC.		0				
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS						
OTHER (Specify Source)						
		0				

POSITIONS None

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)  
 It is estimated that this bill will not create additional fiscal impact.

IV. DATE April 29, 1983 PREPARED BY Wally Harrison, Director Admin. Services  
 AGENCY Legislative Affairs Agency  
 Original: Legislative Finance PHONE 465-3890  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)  
 33-001 (Rev. 12/82)

HCR

34

MEMORANDUM

May 6, 1983

TO: House Judiciary Committee Members  
FROM: Staff  
SUBJECT: House Concurrent Resolution 34

Section 1

Authorizes the presiding officer to compel the attendance of individual absent members whether there is a quorum or not.

Section 2

Adds a requirement that any resolution establishing a special or joint committee shall specify what the expected budget will be and the source of funds.

Section 3

Amends "Rule 23", Committee Meetings. The substance of this section was similar to CSHCR 32 which has already failed in the House. Committee Members may want to delete this section or ask the "sponsor" for a substantive comparison between this section and CSHCR 32, at the time of his testimony.

Section 4

Amends "Rule 37" by adding a new subsection. Same recommendation as above [for Section 3].

Section 5

Adds clarifying language.

Section 6

Removes language requiring the adoption of a concurrent resolution for adjournment or recess.

Section 7

Changes "point of order" relating to violation of uniform rules by either house. By this change questions of order may be raised in the other house for violation of uniform rules other than a rule concerning matters relating to the organization or operation of a house.

I. REQUEST

Bill/Resolution No. HCR 34

Title Proposing certain amendments to the Uniform Rules

Requested by House Judiciary Date April 29, 1983

II. FISCAL DETAIL

Agency Affected Legislative Affairs Agency

Program Category Affected General Government

BRU, Program, Or Subprogram(s) Affected \_\_\_\_\_ Session \_\_\_\_\_

(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 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 COMMODITIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS, ETC.		0				
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS						
OTHER (Specify Source)						
		0				

POSITIONS None

FULL TIME						
PART TIME						
TEMPORARY						

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

It is estimated that this bill will not create additional fiscal impact.

IV. DATE April 29, 1983

PREPARED BY Wally Harrison, Director Admin. Services

AGENCY Legislative Affairs Agency

Original: Legislative Finance

PHONE 465-3850

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/82)

