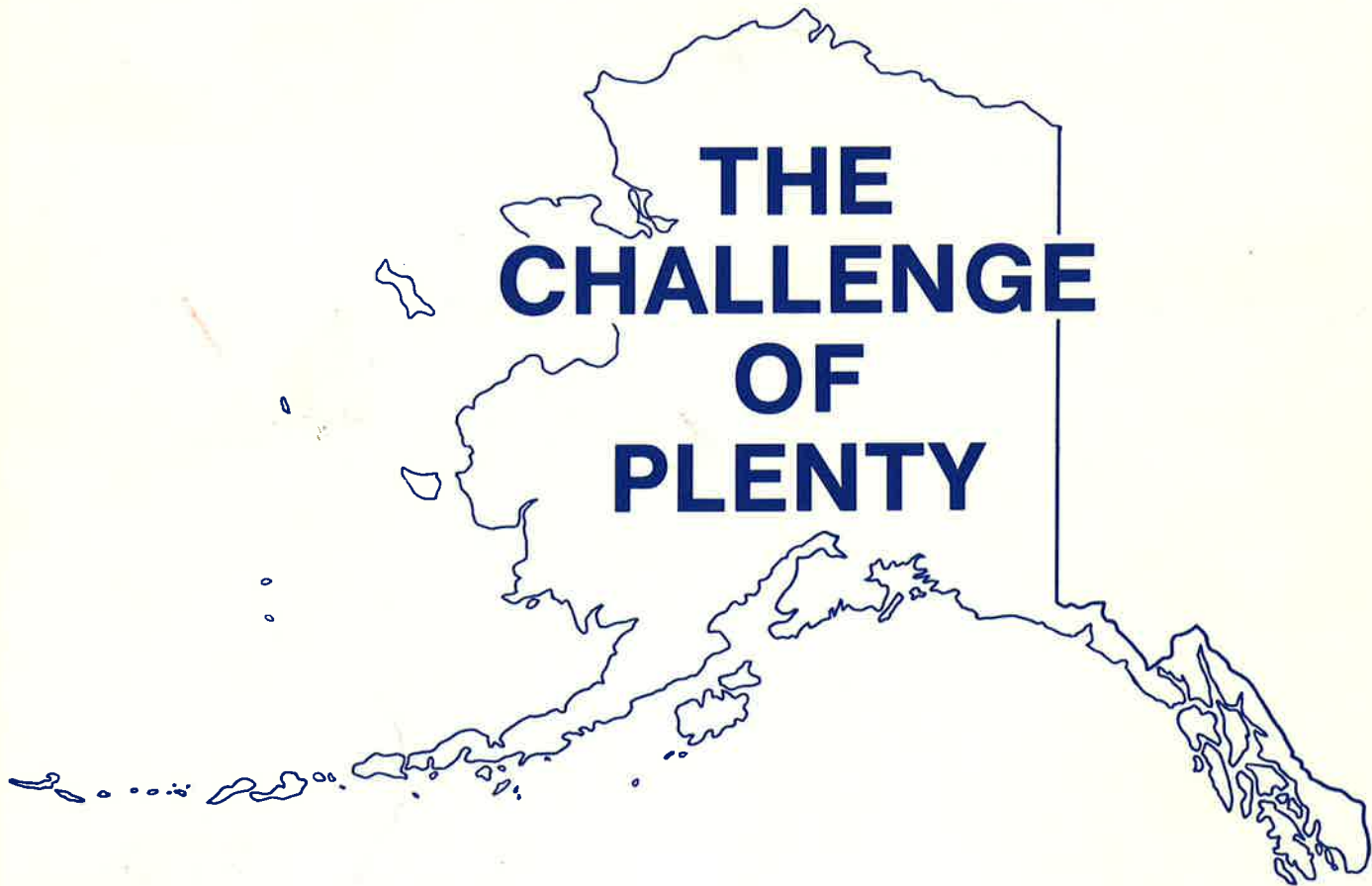


COMMON SENSE FOR ALASKA



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ON
ALASKA STATE GOVERNMENT
SPENDING POLICY**

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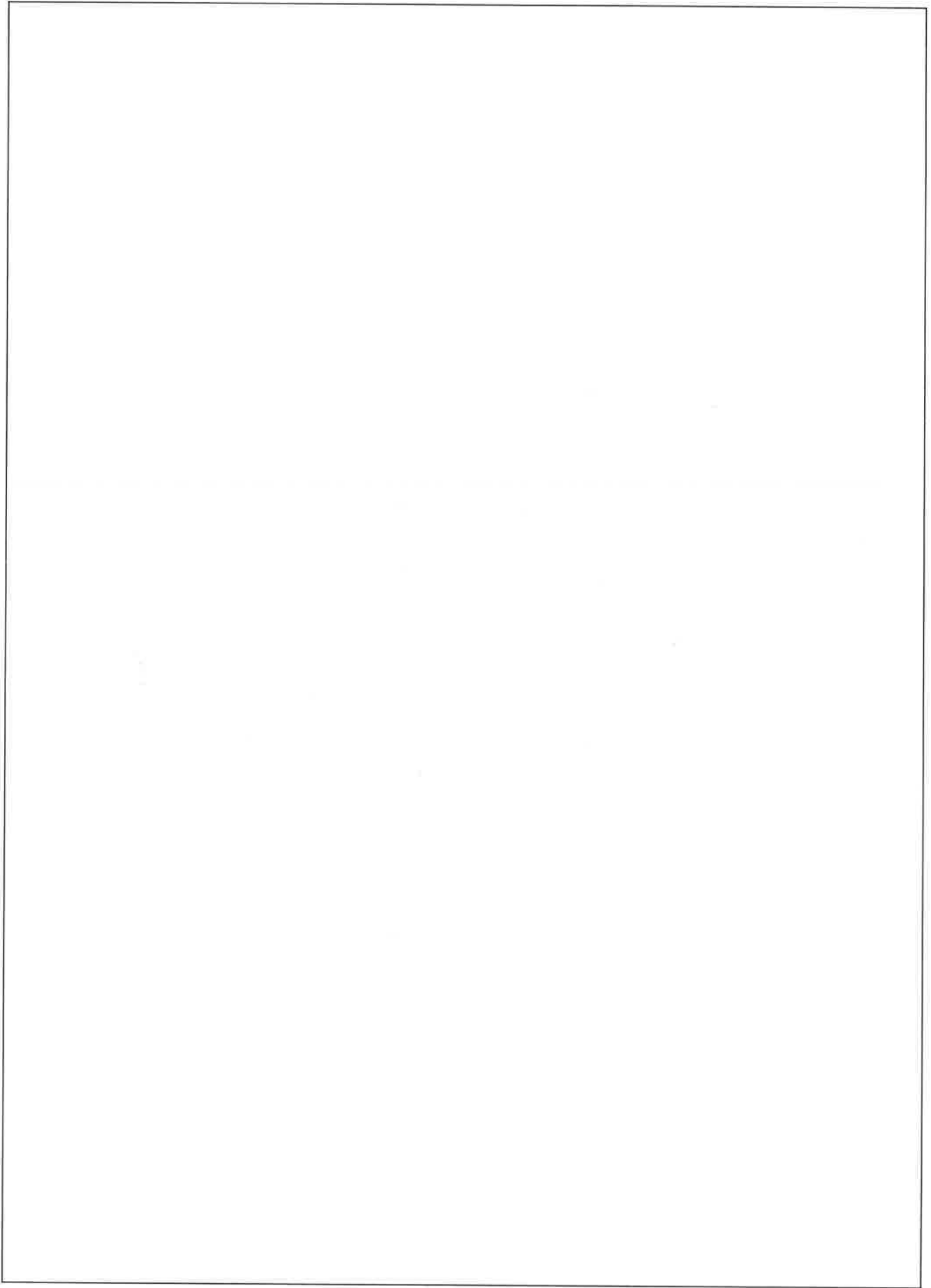
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P.O. Box 4-1104
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December 13, 1980

THE CHALLENGE OF PLENTY

**An Awareness Project on Alaska State
Government Spending Policy**



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J. Shelby Stastny
President,
Common Sense for Alaska



Dave Harbour
Program Chairman,
"The Challenge of Plenty"



George W. Easley
Moderator,
"The Challenge of Plenty"

-INTRODUCTION-

"The Challenge of Plenty"

Common Sense is pleased to present this publication of our "Awareness Project on Alaska State Government Spending Policy: 'The Challenge of Plenty.'" The objective has been to raise the awareness of Alaska's public and to improve the quality of knowledge which citizens have with respect to government revenue and spending issues. We fully appreciate that this project will solve no specific problems. As a matter of fact, the Legislature and Governor are appropriately charged with developing the final consensus on the issues that are discussed. We who elected them must logically conclude that they are best prepared to negotiate that consensus. By raising the awareness and knowledge level of citizens hopefully our scrutiny of legislative and administrative spending will contribute to the excellence of that consensus. Therefore, we commend to the Legislature and to the Governor the important task they are undertaking.

Common Sense for Alaska is a non-profit, non-partisan, tax-exempt organization whose objectives include sampling public opinion, performing government research, developing communications programs to pass on the results of such opinion surveys and research to the general public. Common Sense has expanded its board membership to 43 citizens representing every geographic area of our state, as well as most social and economic constituencies. The Board members are listed on the following page. We have one thing in common and that is fiscally responsible government for the state of Alaska.

We feel that without public scrutiny the enormous revenue matters which the state is now encountering could lead to overgrowth of government, the diminishing of the private sector and ultimate economic chaos. However, with public scrutiny such a likelihood is substantially reduced. Common Sense, through partnership with other organizations, is in a position to provide a vehicle for that public scrutiny. We appreciate the support evidenced by the participation of over 460 Alaskans in this event.

Special recognition should be given to certain companies that have sponsored the appearance of legislators at this event and they are listed on the following page. Co-sponsoring organizations are also listed and they have helped support the appearance of speakers, as well as media representatives.

It was obviously impossible for every Alaskan thought leader to participate in this forum. But we have included additional papers by Byron Mallot, Bob Uchitel, Louis Overstreet, Harry Donahue, Art Hippler, Harold Pomeroy and Mayor Vincent J. O'Reilly in order to expand the base of thought on "The Challenge of Plenty."

Common Sense for Alaska Board of Directors

OFFICERS: President J. Shelby Stastny, CPA, Vice President George W. Easley, Secretary Paul F. Robison, Treasurer Richard T. Hall, Assistant Treasurer Tom Soper; REGIONAL VICE PRESIDENTS: Rick Baldwin, Kenai, Richard Lauber, Juneau, Jeff Wilson, Juneau; ANCHORAGE BOARD MEMBERS: Chris Beardsley, Kenneth E. Calhoon, Dave Harbour, Jan Faiks, Lee Fisher CPA, Al Fleetwood, Gary Johanson CPA, Jackie Lindauer, Roderick McDonald, Len McLean, Judy Meidinger, Rick Nerland, John Norman, William Sheffield, Kenneth Showalter, Chris Stephens, George Trefry, Ray Waters, Frank Van Zant, Bobbye Young; FAIRBANKS BOARD MEMBERS: Robert Dempsey, V. Paul Gavora, Albro Gregory, Robert Groff; JUNEAU BOARD MEMBERS: Thelma Cutler, Fred Eastaugh, Dr. Robert Horchover; KENAI BOARD MEMBERS: Rick Baldwin, Dick Morgan, Kay Poland; KETCHIKAN BOARD MEMBER: Lew Williams; KODIAK BOARD MEMBER: Hazel Hogan; VALDEZ BOARD MEMBER: Mary Jo Evans; WRANGELL BOARD MEMBER: Maurie Buness; EXECUTIVE COORDINATOR: Jean Peterson.

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“The Challenge of Plenty” - An Observation

Dr. Olds offered the Invocation between the opening statement and the Pledge of Allegiance. No one thought to take notes of his words but we should have. The audience of business, government, labor, education, office holders and office seekers were anxiously anticipating the talk of panelists and speakers. Experienced in similar conferences, the listeners were prepared for the flow of ideas to start. Dr. Olds' comments, though heard with respect, did not at the time reveal their later significance. He spoke of prudence, our custodian role, and questioned whether material wealth can equal in value human life. He talked of the untimely death of a local business leader who died the preceding evening in an almost senseless accident. He called for guidance from a source possessing wisdom more than the combined intellectual powers of the persons in the room could bring to bear. The program began.

The Lieutenant Governor sketched out the political decisions facing the elected and the electors. He spoke of lack of government service price mechanism and the devastation such absence has caused to the budget process, the Alaska State per capita cost of government compared to the other 49, the inherent inability of the legislative process to withstand the pressure of wish lists, the need for priorities, the need for reducing the percentage of increases. The Lieutenant Governor summarized several principles to be used as guidelines for an approach and for implementation. The principles were not envisioned by the drafters of the State Constitution.

Bob Richards, banker and economist, followed. He interpreted the economic forces in language that lived. The dull drudgery of examining data became vibrant by his style; some commonly accepted Alaskan facts were shown to be myths. True causes, true facts and true comparisons were offered in a perspective of logic and reason.

The first group of panelists followed, attempting to concentrate on “Spending and Tax Issues.” Each speaker targeted an aspect; each aspect reflected the problem being dealt with. Not one view prevailed, all views contributed to the audiences' growing appreciation of the immensity of what was being dealt with. Questions followed, pointed but polite — more questions than time would allow answers.

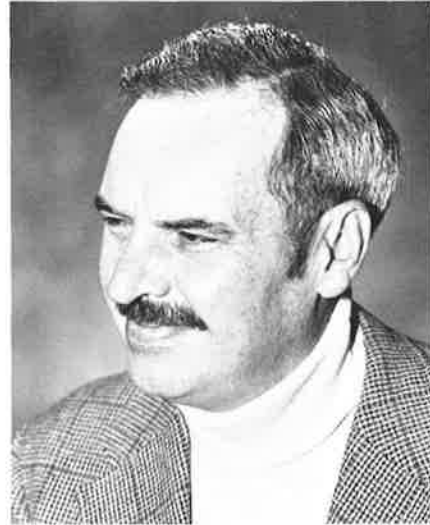
The second panel then took their shot. “Capital Project Issues” was the subject. Municipal, labor and construction representatives joined in discussion with environmentalists, a municipal bond attorney and a representative of a native group. The views were diverse but there was a commonality of intent and a seeking of unified approach. Audience attention was high. None slept. Few even yawned.

The main course of lunch was the “poor boy” sandwich. How appropriate.

A mover and shaker offered the luncheon address. Former Governor Hickel dealt with challenge, dealt with our position in the American Union, dealt with the northern climate society within our grasp. No short goals, he portrayed for us what is possible and “do-able” if we can summon the courage.

Without pause the third and concluding panel took the floor. Benefiting from all that had preceded, drawing on well-constructed deep concepts, this panel addressed what philosophies should prevail in our present and future society. Couched in terms of budget and program, the panelists nipped and plunged at what we are and what we may become as individuals and as a society. What is the use and misuse of wealth? Can a government structure cope with massive surplus? Can accepted political practices control unprecedented monetary forces? Audience questions brought forth new insights. The native leader here queried on how much more additional State aid would be necessary and when it would terminate, responded that he shared in the optimistic view which was the converse — the native corporations anticipated aiding the State at some point in time! No single panelist's ideas prevailed; all ideas were touched and affected by others but everyone gained.

Cloaked in the deserved mantle of the State senior statesman, former Governor Egan reviewed the path by which the people and the land moved from territory to state: the trade-offs forced on state organizers, the threat now posed by uninformed Federalists to further reduce what Alaska received in its compact with the union of the United States. He called for the present and any future administration to be carefully prepared to politically fight any attempted inroads. He closed expressing his appreciation for being invited. He hoped he had not offended anyone. He may not have realized he honored us all.



Vincent O'Reilly
Mayor, City of Kenai
The Challenge of Plenty Media Panel,
Audience Representative

The program called for a summary and it was given. But perhaps there is no summary. One observer wonders whether Dr. Olds' invocation may be the key to what is our true wealth. We are, after all, free persons, convening to share all of their human wisdom in an atmosphere of cooperation and willing to ask for guidance from their Maker.

December 13, 1980

**THE CHALLENGE
OF PLENTY**

**An Awareness Project on Alaska State
Government Spending Policy**

December 13, 1980

THE CHALLENGE OF PLENTY

An Awareness Project on Alaska State Government Spending Policy

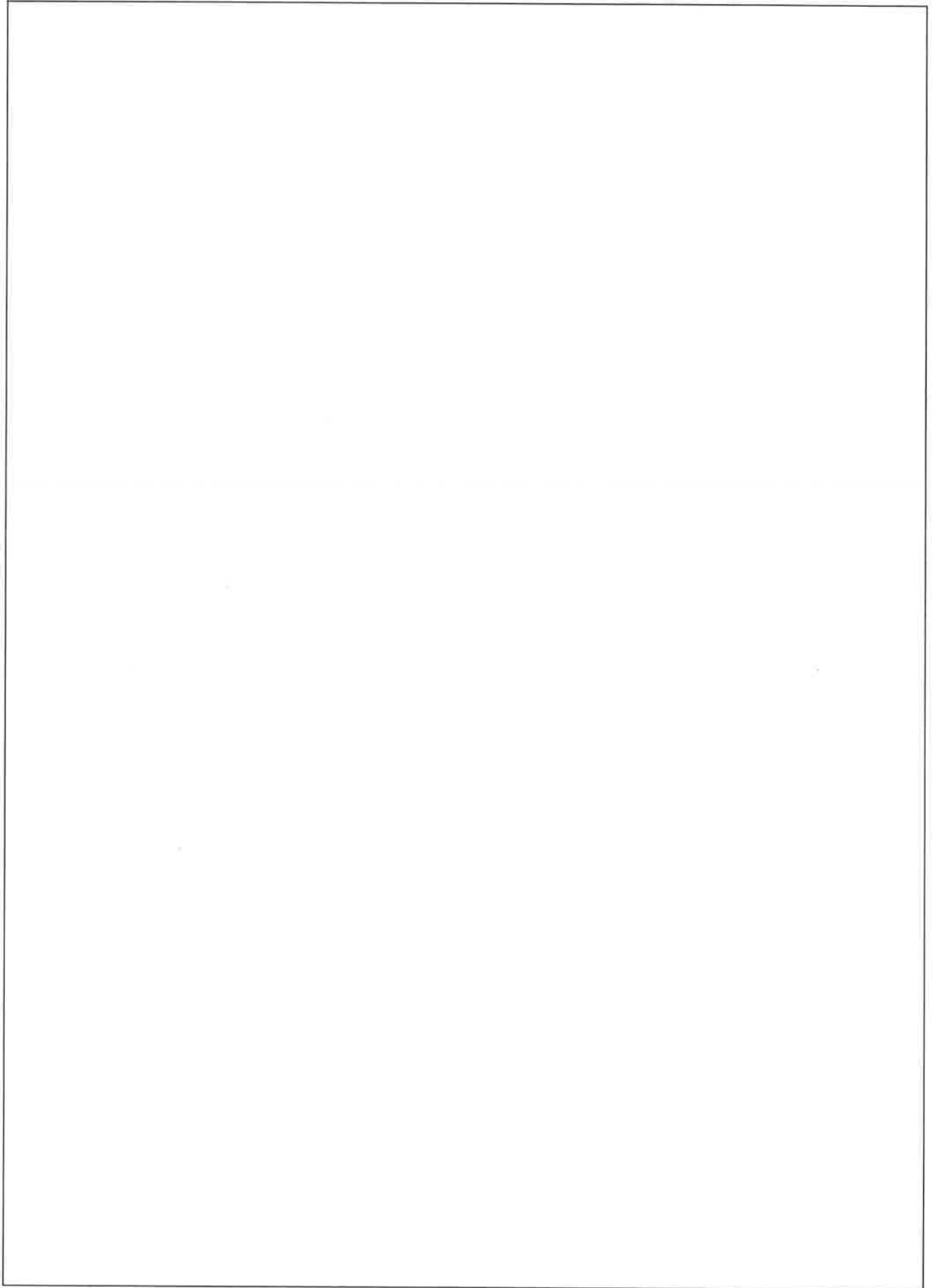
Common Sense for Alaska, joined by co-sponsoring organizations, welcomes you. Our objective is to improve citizen awareness of and information about many major government spending issues now confronting our state. Armed with knowledge about the Challenge of Plenty, we should be better equipped to encounter it successfully.

— AGENDA —

George W. Easley, Moderator

- 8:00 Coffee, continental breakfast
Music by Anchorage Youth Symphony
- 8:45 Opening Statement
Shelby Stastny
President, Common Sense for Alaska
Dave Harbour
Program Chairman, Common Sense for Alaska
- 8:50 Invocation
Dr. Glenn Olds
President, Alaska Pacific University
- 8:55 Welcome and Pledge of Allegiance
Larry D. Crawford
Municipal Manager, City of Anchorage
- 9:00 The Challenge of Plenty
Terry Miller
Lieutenant Governor of Alaska
- 9:20 Opening Address: *"Alaska's Developing Pattern of Revenue and Spending"*
Robert Richards
President, Alaska Pacific Bank
- 9:45 Panel #1 Presentations
Spending and Tax Issues
- Jan Faiks — State Legislative Chairman, G.F.W.C.: FREE Committee: *"Improving Legislative Procedures"*
 - Lee Fisher — President, PASIT (People Against State Income Tax): *"State Tax Policy"*
 - Heather Flynn — President, Anchorage School Board: *"Revenue Sharing"*
 - Vern Hickel — Board Member, Alaska State Chamber of Commerce: *"Controlling State Government Spending"*
 - Bill Pargeter — former Vice-Chairman, The Governor's Management and Efficiency Review Committee: *"Efficiency in Government Operations"*
 - Bill Sheffield — Chairman, Commonwealth North Resource Income Committee: *"Commonwealth North's Revenue Study"*
 - Ken Showalter — Chairman, Alaska Oil & Gas Association Government Affairs Committee: *"Major Sources of State Revenue"*
 - Joe Josephson — former State Legislator: *"Limiting Municipal Expenditures"*
- 10:30 Questions by Media Panel
Joe Gallagher, Alaska Public Radio Network
Flip Todd, Freelance Writer
Vincent J. O'Reilly, Mayor of Kenai — *Audience Questions*
- 10:50 Panel #2 Presentations
Capital Project Issues
- Dwayne Carlson — Alaska AFL-CIO: *"Jobs and Capital Projects"*
 - Nancy Lee — Energy Coordinator, Alaska Center for the Environment: *"Alternate Energy Projects"*
 - Mitch Gravo — Municipality of Anchorage: *"Anchorage Projects"*
 - Judy Meidinger — Alaska Native Foundation: *"Rural Projects"*

- Wally Parker — President, Associated General Contractors: *"Major State Funded Building Projects for the '80's"*
 - Robert Penney — Co-chairman, Susitna Power Now: *"Susitna Power"*
 - Eric Wohlforth — Bond Attorney: *"Capital Projects: To Bond or Not to Bond"*
- 11:20 Questions by Media Panel
- 11:45 Lunch, Music by Liz King
- 12:00 *"Alaska's Capital Challenges"*
Governor Walter J. Hickel
- 1:00 Panel #3 Presentations
What Alaska's Government Spending Policy Should Be During the '80's
- Chancy Croft, former State Legislator
 - Tom Fink, former State Legislator
 - Morris Thompson, former President, Alaska Federation of Natives
 - Frances Ulmer, Director, State Division of Policy Development and Planning
- 1:30 Questions by Media Panel
- 2:00 *"The Frontier State: No Stranger to Challenges"*
Governor William A. Egan
- 2:15 *"Testing Alaska's Opinion on Government Spending Policy"*
Dave Dittman
President, Dittman Research Corp.
- 2:20 Summation
George W. Easley
- 2:25 Closing
Dave Harbour



Invocation - "The Challenge of Plenty"

Introduction

As we assemble to consider the resources of plenty of our bountiful State, their uses and development, I invite you to consider our most precious and precarious resource — a good person — more finite, short-lived, and irreplaceable than oil. One such irreplaceable resource, John Mlakar, Chairman of our Board and one of the most selfless and devoted Alaskans I know, was killed last night in a senseless accident, his passing leaves an aching void in the leadership not only of our only private University, but of this city and State, the zoo he helped build, the Salvation Army, Alaska Treatment Center, and other good causes he served. Will you join me in a moment of silent prayer for him and all those who grieve his passing this day.

Prayer

Eternal God, in whom we live and move and have our being; Creator and sustainer of our ordered and provident world — and our own lives also, we pause at the beginning of this important day and conference to give thanks for this good earth, for the gift of life, our heritage and liberty, for all the sacrifice, hard work, enduring courage and patience of countless others that have brought us to this hour.

We acknowledge in the temptation of our scientific genius and industry that we did not create the earth and the world's nor did we create this remarkable land of ours — its traditions of law and liberty, private enterprise and social responsibility, the privilege of honest work and the enjoyment of the fruits of our labor, the invitation of an open future and prospects of harmonizing a provident nature and wise and resourceful human nature.

We acknowledge these gifts that we may too easily take for granted; and are duly mindful that no other people at any other time in human history have been so favored or fortunate. We are thankful for the long, hard struggle with poverty, ignorance and impotence that has brought us to this moment of abundance, knowledge and power.

But we are honest to confess our deeper quandry — how to properly handle this new found abundance, knowledge and power.

Save us, Oh God, from believing we uniquely deserve these blessings while half the World goes to bed hungry and hopeless. Deliver us from that smug self-seeking that would be tempted to use these blessings for ourselves alone. Deepen our sense of surprise and stewardship of this bounty, that we may be more worthy to serve the good of all.

Remind us in our swiftly passing days none of these things can be taken with us, or could be traded for the gift of a single life — that we build in vain who do not build a better people. So may we cherish, enoble, and complete the work of those who like John Mlakar, and thine own son, teach us with their life the enduring wisdom of all resource development:

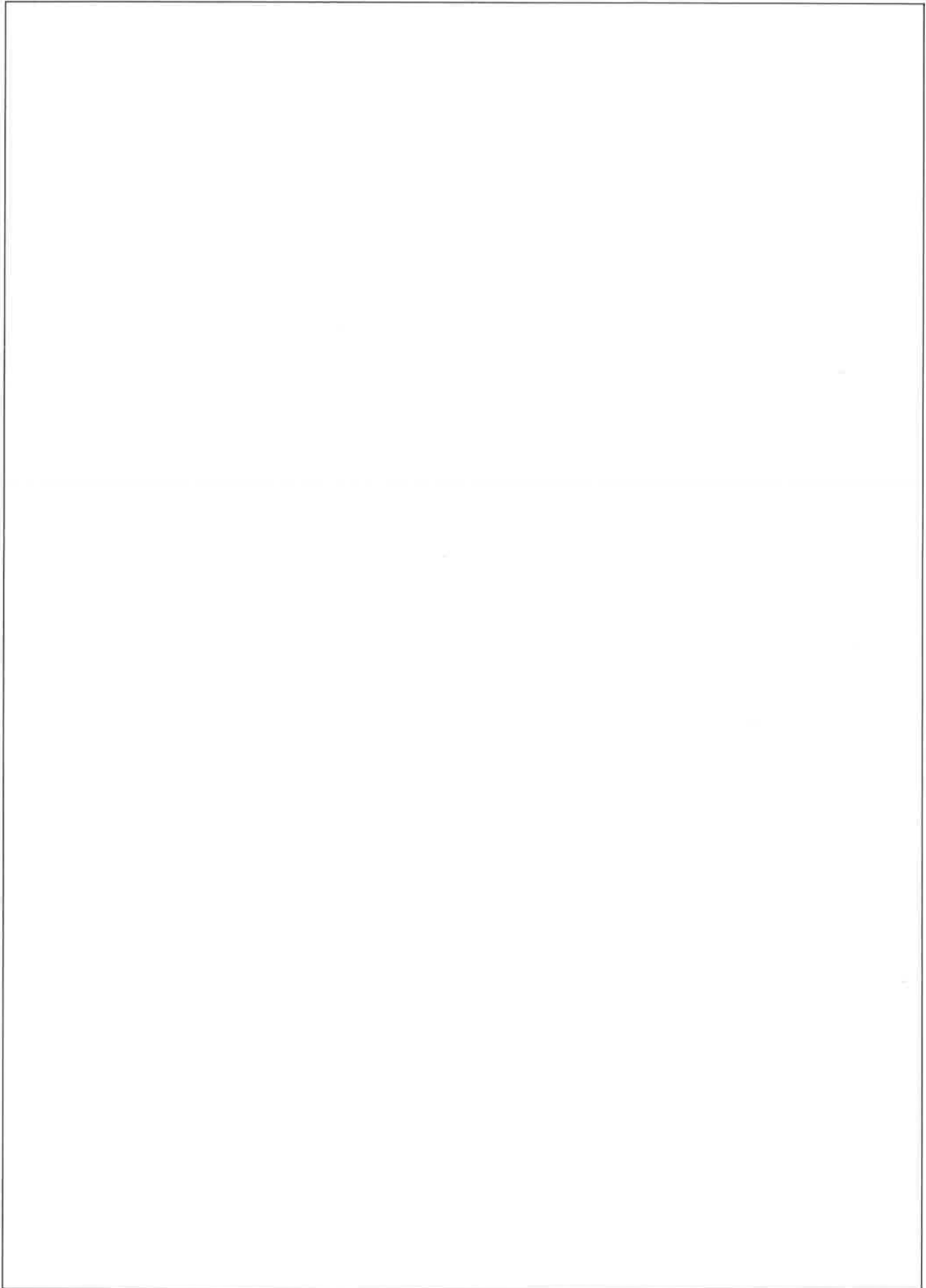
that it is in giving that we receive
it is in serving that we are served;
it is in caring that nothing be lost
that we find what cannot be lost —
the gift of a good and perfecting life.

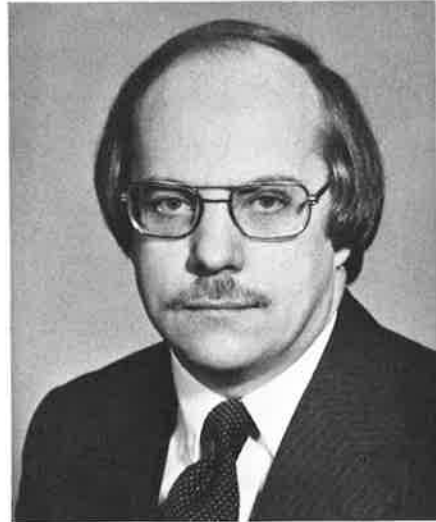
May this conference, its deliberation and decisions be made in light of this Thy wisdom and goodness, that this land and we Thy people, may be truly worthy of all these blessings — holding out to all who stand in need of Thee and the goods of this life — the spirit of Him in whose name we pray.

Amen.



Dr. Glenn Olds
President, Alaska Pacific University





Larry D. Crawford
Municipal Manager, City of Anchorage

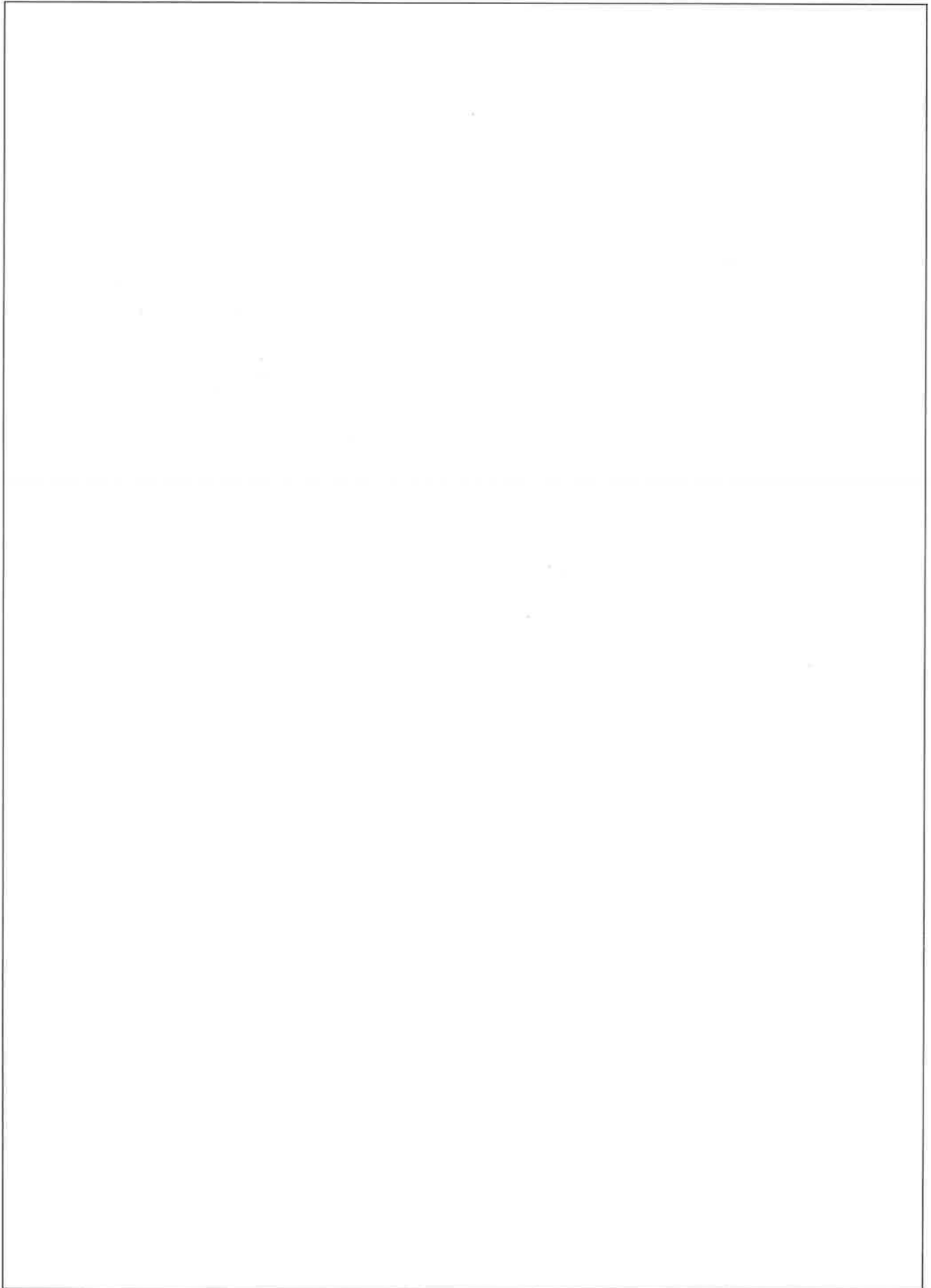
“Welcome”

On behalf of Mayor Sullivan and the Municipal government, I am pleased to welcome Lt. Governor Miller, Governor Egan, Governor Hickel, state and local political leaders, other distinguished guest speakers, and participants in the audience.

This session certainly addresses a timely subject in view of the State's oil wealth. State spending policy is an issue that should be of interest to all Alaskans. As you all know, such policy is influenced by numerous factors at the federal, state, and local levels. An understanding of these factors is crucial to the establishment of a policy that will benefit our state in the years to come.

An important factor to be considered is the appropriate role of government. The view of the Mayor's administration has been that government should work to improve the quality of life, provide the infrastructure necessary for business activity, adopt regulations that protect life and health but do not discourage economic growth, and to generally facilitate the free market operation of our economy. We believe the local community supports this view.

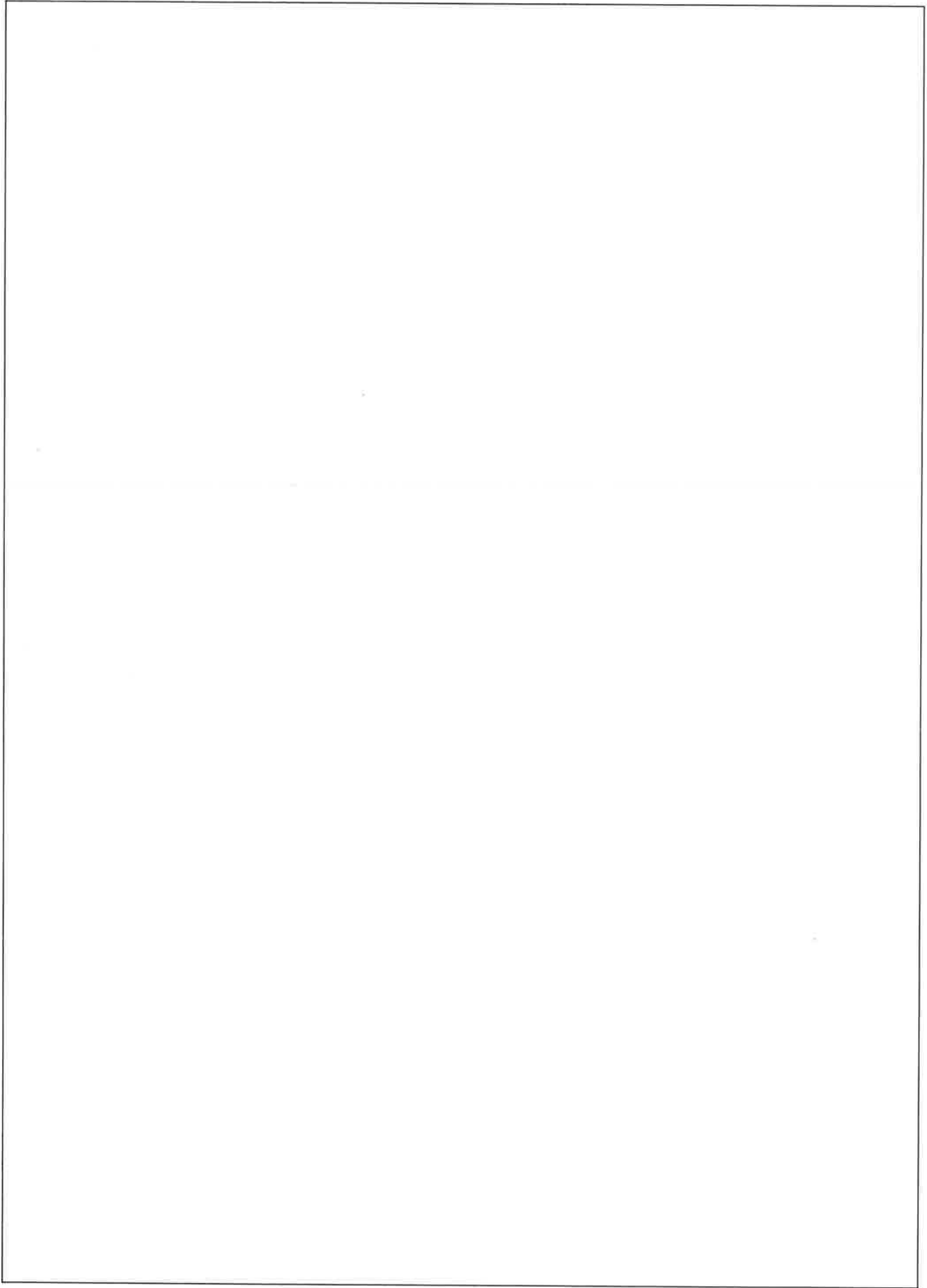
To be successful in implementing any long-range fiscal policy, the government and private sector must work as partners toward the achievement of common objectives. I am hopeful this awareness program will help enhance such a partnership.



Lieutenant Governor Terry Miller

— O —

Keynote Address



“The Challenge of Plenty”

The problems of plenty — the phrase seem to be a contradiction in terms. Yet dealing rationally with the large surpluses projected for our state treasury is precisely the major challenge facing Alaska in the decades of the 1980's and 1990's.

Throughout history, men and women have grappled with the problems of scarcity; indeed, most economic thought and paradigms deal with the allocation of scarce resources.

But here in Alaska, through fortuitousness of timing and accident of geology, we are blessed with abundant quantities of the most rapidly appreciating products in the history of humankind — oil and gas.

The challenge is to instill and maintain economic efficiency and cost effectiveness in a system where resources are so plentiful. The absence of the price mechanism, which everyone here today depends upon for making daily economic decisions, threatens to destroy intelligent budgeting. Because there is a temporary interruption between the demand for government goods and services and some measurement of the “willingness to pay,” serious budget dislocations will occur.

The phenomenon first occurred during the 1970 Legislature, following the 1969 North Slope bonus lease sale which netted in excess of \$900,000,000. During that Legislature, the state general fund budget nearly doubled, and the state embarked upon a spending level from which it has been, practically and politically, impossible to retreat.

As a result, Alaska already has the dubious distinction of having more government per capita than any other jurisdiction under the American flag. We have state per capita expenditures nearly three times the national average, and almost double our nearest rival, Vermont.

At present levels of spending, the state general fund operating budget will double every 3½ years. As Commonwealth North has reported, at an annual state budget growth rate of 20% — less than our current rate of growth — the state will be spending \$45,000,000,000 per year only 20 years from now. Clearly this rate of increase is unacceptable and must be controlled.

I am not a financial Cassandra nor do I believe the state is nearing its economic Armageddon. Literally billions of barrels of oil will yet be discovered in Alaska, and the state coffers will continue to bulge for decades to come.

I do believe, however, that we must contain state spending if we are to control government's presence in our everyday lives. Excessive government regulation and interference threatens Alaskans' lifestyles, while inefficient budgeting propagates government waste and burgeoning state payrolls.

The problems of excessive government growth are not limited to Alaska. It is painfully obvious to even the most calloused taxpayer that Congress has been unable to restrain federal deficits which have contributed to the legacy of hyperinflation and declining productivity.

This problem is exacerbated even more in the Alaska State Legislature because nearly 93% of all state revenues come from the petroleum industry. Hence, aside from one identifiable interest group, there is little counter-pressure on legislators to curb spending.

Many of the spending programs advocated by the numerous interest groups accessing the state treasury last session were laudable; but in the aggregate they are budget-breaking.

Last session, for every billion dollars in new revenue, legislators proposed 4 billion in additional expenditure requests. Since both the executive and the legislative branches have been unable to contain the temptation to spend, an external limit must be imposed. Candidly stated, we policy makers in Juneau must not be left to our own devices.

Long ago, I announced my support for a constitutional amendment limiting state government growth. While such a limit could take many forms, a formula limit on state spending for the operating budget must be included in the amendment's language.

I'm pleased to observe the growing political consensus which is finally emerging for a limit on government growth and spending. The governor has stated his intention to introduce a limit at the next session of the Legislature. Key legislative leaders of both parties in both houses have expressed their support for some kind of limit. The Alaska State Chamber of Commerce is supporting an initiative to impose a limit. Commonwealth



Terry Miller
Lieutenant Governor of Alaska

North, in its recently-released report, joined the call for spending controls.

Of course, there is no unanimity on the form of such a limitation. While I personally prefer a constitutionally-imposed limit which the Legislature and executive branches cannot circumvent, the next best limitation is one imposed by the initiative process, fortified by direct electoral sanction.

Any proposed constitutional amendment should not take the "meat axe" approach which some states, acting out of political desperation, have attempted. Rather, it must be carefully-crafted, recognizing Alaska's unique circumstances and being flexible enough to adjust to changing conditions.

A sensible constitutional limit would at once accomplish two goals. First, it would force better prioritization of expenditures within the constitutional limit. None of the proposals advanced to date are designed to reduce current spending, but rather are aimed at controlling its rate of increase. Therefore, if budgeted more carefully, the \$1.7 billion-plus appropriated this year for the state's approximate 410,000 citizens should adequately provide for the delivery of all necessary state goods and services.

Second, a limit would encourage investment of our petroleum wealth in a prudent and varied strategy which will encourage private job development.

We should invest in needed Alaska housing and business expansion. We should invest in resource development — oil and gas, precious or strategic minerals, and in our renewable resources like fisheries, timber, and agriculture. We should invest in tourism, light manufacturing, and value-added industries for our resources. We should invest in economically-sound and environmentally-safe hydroelectric power. We should invest in the necessary social capital programs to insure that Alaskans of every economic circumstance have an opportunity to participate in this state's expanding economic pie thereby improving the quality of life in Alaska. Finally, the state should invest in needed infrastructure — roads, docks, ports, bridges, and runways to mention a few.

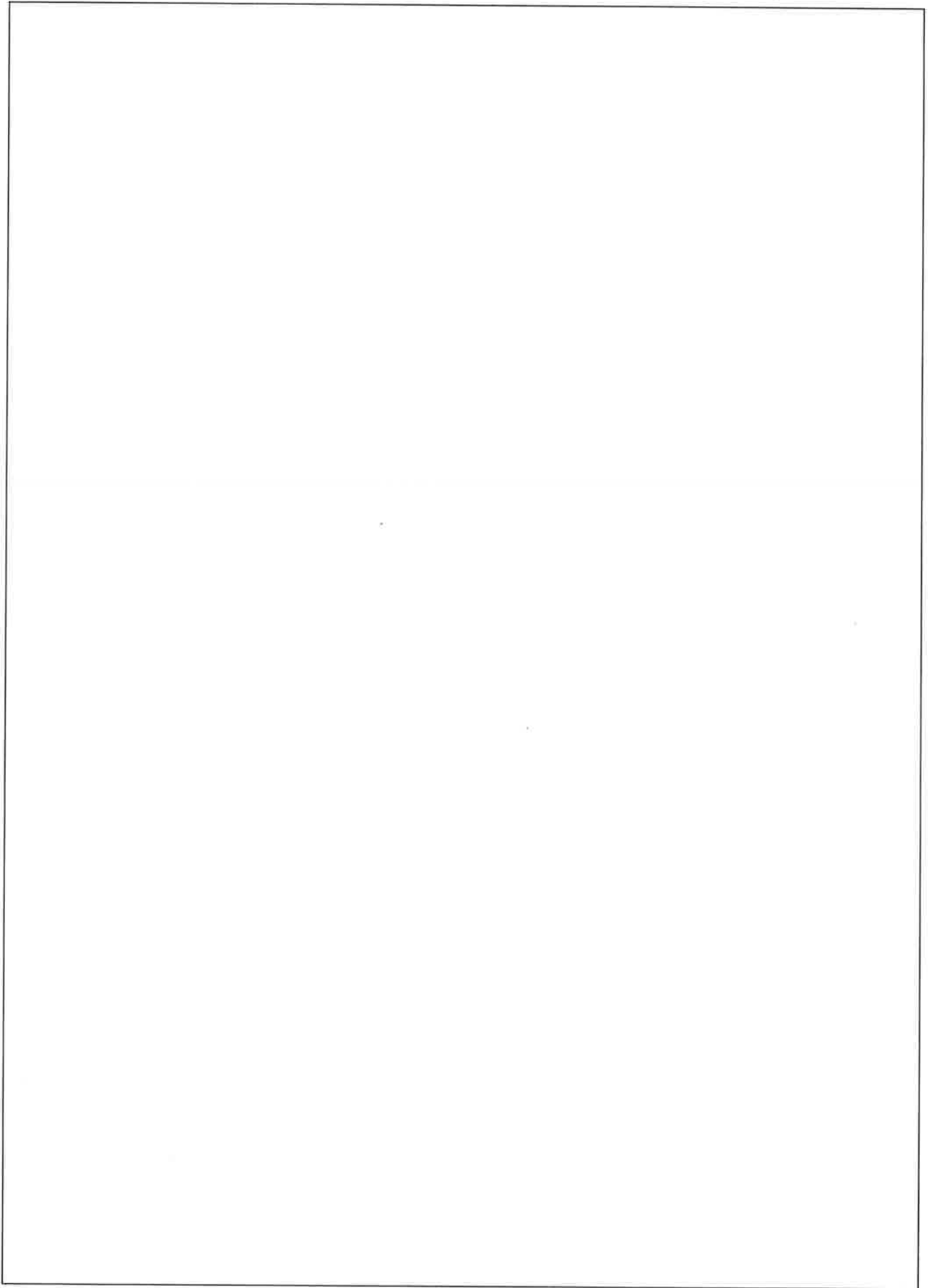
It is my view that the overwhelming majority of Alaskans want their state government to rationally invest our massive petroleum wealth. As I travel around the state, Alaskans tell me that they do not want to see ever-increasing government payrolls and a pell-mell proliferation of programs. Alaskans do tell me they want to see a careful investment strategy devised to create the climate for increased productivity by Alaskans in their private pursuits and an accompanying increase in their standard of living.

Without the parameters that a government growth limit provides, we may succumb to the scatter gun approach of throwing money at problems. A rational spending limit would force a prioritization of projects and would demand rational, planned delivery of services and projects.

Robert Richards

— O —

Opening Address



“Alaska’s Developing Pattern of Revenue and Spending”

This subject which we are addressing today is not new. The issue of fiscal responsibility has plagued government ever since man has organized himself politically. Irresponsible extraction of revenue from the populace and uncontrolled spending by government have at various times caused the collapse of empires and even the downfall of civilizations.

Accordingly, this conference on state government revenue and spending policy is momentous, and everyone in this room is to be commended on devoting time to examine the issue of the fiscal well-being of the state of Alaska.

I will take the next few minutes to lay out the recent pattern of revenue and spending by our state government.

First, let us look at the expenditure side.

Spending by state government in Alaska is excessive — far beyond what could be considered reasonable by any measure.

State expenditures today are nearly 1,000% of their level eleven years ago. That is, today the state of Alaska is spending nearly ten times what it was eleven years ago. Granted, a certain amount of this expenditure increase was needed to stay even with the effects of inflation and growing population. Over the past decade prices (as measured by the Anchorage Consumer Price Index, compiled by the Bureau of Labor Statistics, U.S. Department of Labor) have approximately doubled, and population has increased nearly 50%. These price and population increases, then, would call for an increase in state expenditures of nearly 2.5 times to remain even. However, as I indicated, state expenditures have increased ten times!

This expenditure growth can only be described as astronomical, and, further, it is getting wilder, rather than being brought under control. This year the state operating budget — leaving out capital expenditures — is running nearly one-fourth above that of last year. If we keep going like this — say, at 20% per year — our state government operating budget will be \$10 billion in 10 years!

Several justifications have been offered for the past huge increases in state expenditures. The most common justifications include the following:

- (1) After many years of perceived inadequate government services, the Alaska people were justified in allocating the North Slope lease sale bonus to “catching up,” bringing the level of state services to a satisfactory level.
- (2) Because of Alaska’s sparse population and immense geographical size, a certain amount of inefficiency is intrinsic to providing government services to the people throughout the state.
- (3) Unlike many other states, the state of Alaska assumes the major financial burden for providing education to the citizens of the state.

These popular explanations, however, do not justify the current level of expenditures. In fact, most of them simply are myths.

The recent increase in state spending went far, far beyond merely getting us on a par with other states. As the graph on the following page indicates, today Alaska’s expenditures are three times as much as the average state in the nation on a per capita basis. Further, we spend nearly twice as much per capita as the second highest state. Even when the data is adjusted to remove cost of living differentials to permit real comparisons, Alaska spends twice as much as the average state in the nation on a per capita basis.

In comparing Alaska to Wyoming, a state with somewhat similar economic maturity and perhaps one of the closest states to Alaska in terms of population density, Alaska state government employs nearly twice as many people and spends over twice as much on a per capita basis. In real terms, Alaska spends twice as much as Wyoming. Clearly, then, expenditures by the state of Alaska have gone far beyond what can be justified by the argument of population sparsity and geographical size.



Robert R. Richards
President, Alaska Pacific Bank

STATE GOVERNMENT EXPENDITURES PER CAPITA
1977

Alaska	\$3,275
Second highest (Hawaii)	1,915
Similar state in terms of economic maturity and population density (Wyoming)	1,572
Average of all states	1,262
Lowest (Arkansas)	876

DATA ADJUSTED FOR COST OF LIVING DIFFERENTIALS

Alaska	\$2,339
Second highest (Hawaii)	1,570
Similar state (Wyoming)	1,604
Average of all states	1,262
Lowest (Arkansas)	984

Source Table 488, *Statistical Abstract of the United States*, Bureau of the Census, U.S.D.C., 1979, Pg. 296.

Finally, the education argument is insufficient also. Approximately 33% of the expenditures by the state of Alaska are devoted to supporting education, while the average state spends approximately 40% of its budget on education.

Clearly the per capita level of spending by state government in Alaska is far in excess of other states and far in excess of what reasonably can be expected to be justified by Alaska's unique circumstances.

When analyzing state government expenditures, it is important to point out another myth that pervades the thinking of many people. State spending in Alaska has not been solely **induced** by expansion in the private sector or by growth of federal spending and employment in Alaska. In most states this has been the case; however, in Alaska, as I pointed out previously, state spending has grown far beyond that which has been induced by expansion in employment and population. In fact, the major portion of state government spending increases has been autonomous; that is, without regard to growth of employment and the population base.

Further, while past legislatures made the autonomous decision (rather than the decision induced by population growth) to expand state government spending, that expansion by itself created a substantial increase in state government jobs which in turn attracted large numbers of new people. This population growth imposed additional burdens on state government services. That is, the autonomous increase in state government spending has had a multiplier effect whereby a significant portion of the rise in state government spending during the first half of this decade resulted simply from state government spending itself. We have had a classic case of government feeding on itself.

The statistics clearly reveal that expansion of state and municipal employment has been by far the major cause of population growth in Alaska in the past decade. The effect of the trans-Alaska oil pipeline was not even a close second.

Now let us turn our attention to the revenue side.

The table on the following page reflects the rather sudden shift in the burden of financing state government activities. In the decade from 1965 to 1975 the petroleum industry provided about 15% of the total revenue to the state of Alaska. Currently it is providing over 80% of the state's revenue. When looking only at unrestricted revenue, the situation is even more dramatic. In the period 1965 to 1975 the petroleum industry provided one-fourth of the state's unrestricted revenue, and currently it is providing over 90%.

Total revenue collections during the current fiscal year are estimated to be over four billion dollars; and in the next fiscal year are estimated to be approximately six billion dollars.

Average Annual Revenue Sources State of Alaska General Fund

Period (fiscal years)	Petroleum	Non-Petroleum	Federal Grants-in-Aid	Non-Federal Restricted
1965-75*	15%	41%	39%	5%
1976-79 est.	43%	33%	22%	2%
1980-85 est.	82%	10%	8%	-%

Unrestricted Sources

Period (fiscal years)	Petroleum	Non-Petroleum
1965-75*	27%	73%
1976-79 est.	59%	41%
1980-85 est.	93%	7%

*Note: Fiscal Year 1970 data was omitted in calculating the annual averages to avoid the distorting effect of the North Slope lease sale bonus.

Sources: **Annual Financial Report**, (annual issues 1965-79), State of Alaska Department of Administration, **Revenue Sources FY 1977-82**, State of Alaska Department of Revenue. 1980-85; estimates by Alaska Pacific Bank.

It is difficult, if not impossible, to predict the future level of state revenues at least over the next decade or so. These revenues depend almost entirely upon the world price of oil and gas as well as the future production of oil and gas from the state of Alaska. Future oil and gas prices and production levels are virtually impossible to predict.

When analyzing the question of the future level of state revenues two important considerations come to mind.

First, all of this talk about further diversification of our economy to generate substitute sources of revenue — although very good in terms of the general issue of economic development — is mere whistling in the wind. The reason that this is so is because the other industries in which Alaska has a significant potential — fishing, forest products, tourism, and hardrock mining — do not come anywhere near presenting the ability in the foreseeable future to generate revenues of the magnitude of those generated by the petroleum industry. To illustrate what I mean, today the total gross value of the output of Alaska's fishing, forest products, tourism, and hardrock mining industries is below the level of royalties and taxes paid by the petroleum industry. That is, even if we tax these other industries 100% (which would be impossible to do because they would be driven out of business), we would not come close to equaling the revenue generated by the petroleum industry. The total value of output of these industries is estimated to be in the neighborhood of only one-fourth to one-third of the level of royalties and taxes paid by the petroleum industry!

So, as I stated, although I think economic diversification and economic growth is very good per se and we should pursue these objectives in earnest, we should understand clearly that they do not present an opportunity for significant substitution of revenues from the petroleum industry. In other words, we have already made our bed — we have already chosen our course of action — we have already gone beyond the point of no return — that is, we are already unequivocally committed to further expansion of the petroleum industry in Alaska if we want to maintain the level of government services to which we have become accustomed.

That brings us to the second factor that we should keep in mind. At the present time virtually all of our petroleum related revenue comes from the production of oil at Prudhoe Bay. Obviously at some point in time the production of oil and gas at Prudhoe Bay is going to fall off and decline dramatically.

Therefore, we must encourage further expansion by the petroleum industry in Alaska if we are to maintain our real level of government services.

Now let us bring the subjects of government expenditures and government revenue together.

As we look to the future, the requirement for generating additional revenue will be less if we, of course, can maintain control over the growth of expenditures. Obviously, whether or not the state of Alaska reaches the point of a fiscal crisis depends upon the outcome of meetings such as this one which address this matter of (1) generating future revenues and (2) controlling future expenditures.

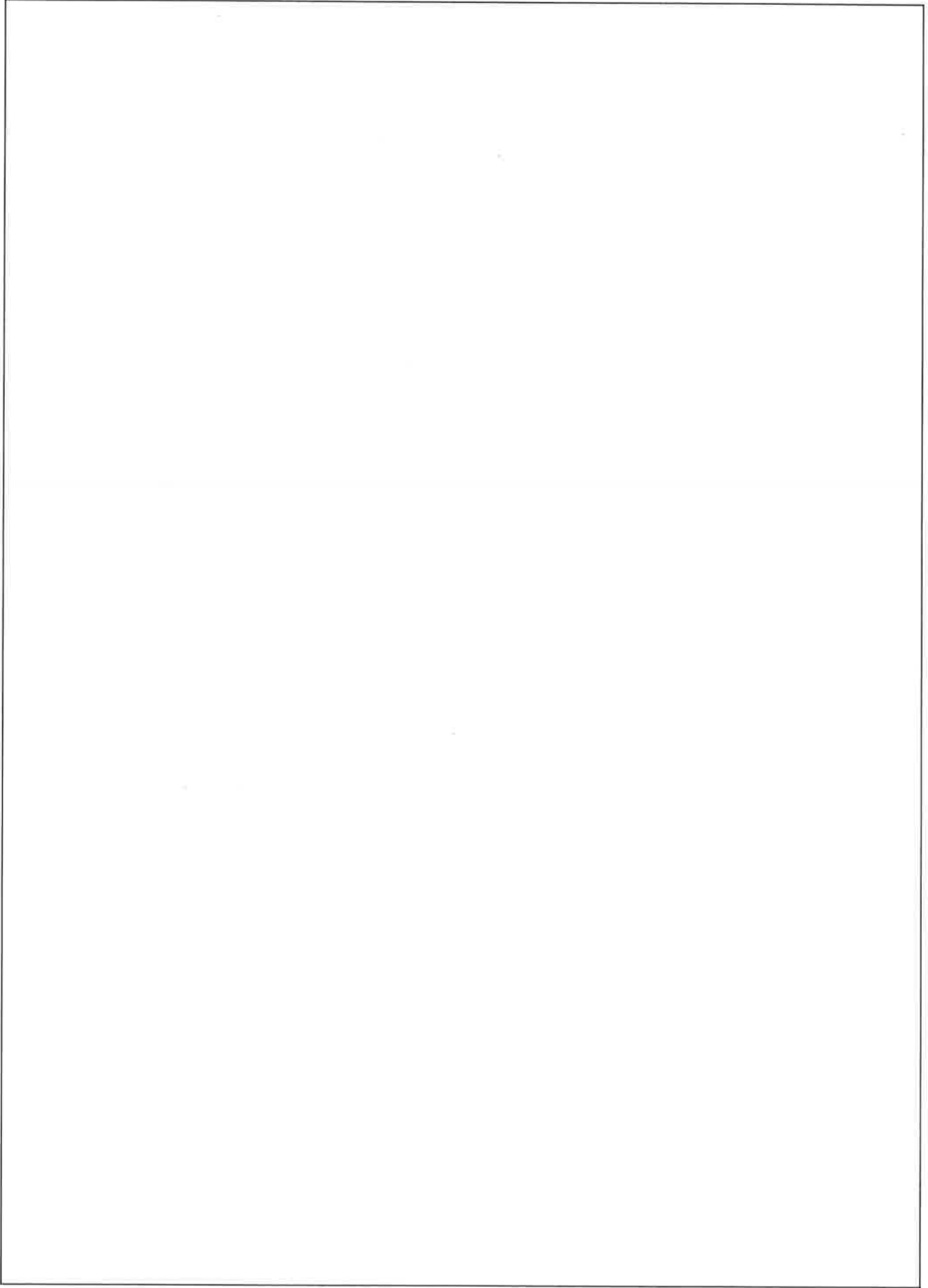
Spending and Tax Issues



PANEL #1

Composed of various leaders throughout our state, Panel #1 addressed spending and tax issues. Each panelist was allowed three to five minutes for individual presentations. The issues ranged from "Improving Legislative Procedures" to "Major Sources of Revenue" and included a recent report by Commonwealth North's Resource Income Committee.

Following the panel presentation, questions from the audience and Media Panel were answered by the panel members. A transcript of those questions and responses follows.



“Improving Legislative Procedures”

Throughout history, frustration and apprehension have been felt by citizens of their states regarding the actions taken by their legislatures. There are numerous examples of misdeeds that aroused public outcry, which in turn resulted in changes in procedures.

In comparison to its sister legislatures in the lower 48, the Alaska State Legislature is a young entity. Currently, the Alaska legislature is undergoing “growing pains,” but under a different, and more difficult, set of circumstances than other states. There are three reasons for this.

In the lower 48, legislative activity was, and still is, watched by dozens of news reporters representing numerous small towns and counties, as well as the larger metropolitan areas. This results in close scrutiny of all legislative activity, and a better informed public.

Closely tied in with media coverage is the accessibility of the legislative halls to the general population, which also leads to closer scrutiny of legislative activities and greater public awareness by the general population of their elected representative's activities.

Finally, when comparing Alaska's legislature with that of other states, one very significant factor is without precedent — no other state has ever had a huge budget surplus per capita.

A blessing, yes, and yet a potentially destructive force demanding extreme caution in its manipulation.

Because of these differences, it is incumbent upon our elected officials to follow sound, accountable legislative procedures. While other states have undergone a gradual maturation process over the years, we do not have that luxury. Alaska's state government must do in a couple of years what other states have done in fifty. This is our “Challenge of Plenty” and I believe it can be done!

The GFWC Anchorage FREE Committee formed a Legislative Study Committee in September to try to discover how policies and procedures of our state legislature might be modified or changed in order to make the legislative process run smoother, allow for additional public input, and make it less vulnerable to abuse.

We have interviewed or received written comments and suggestions from twenty-two legislators regarding our topics. Our sessions with the legislators were extremely productive, and we were gratified at the willingness of our lawmakers to meet with us and share their time and ideas. One question that was frequently asked by the legislators was, “How do the other states do it?” FREE and Common Sense have accepted the task of studying the uniform rules of all states; that project is in the beginning stages.

Nevertheless, we feel there are some uniform rules that warrant immediate attention and change. As a result of our studies to date, we will publish an interim report by January 5, listing about ten areas in which we feel immediate changes should be made which would greatly enhance the working of our legislature. I'm going to give you a “sneak preview” of some of our suggestions.

First, according to all the legislators interviewed, the use of the free conference committee is the most abused and dangerous of our legislative procedures. Historically and traditionally, the granting of the powers of free conference committee has been a “last ditch” effort in reaching a compromise on legislation. This has not been the case in Alaska during the last few years. Legislators are now, even before the start of the legislative session, campaigning for spots on key free conference committees, ignoring any realization that on any given bill, a conference committee should first make an honest attempt to resolve the differences between the two houses. The current uniform rule on conference committees is totally bypassed. The FREE Committee would like to see the appointment of a free conference committee only after **two** conference committees have tried to reach an agreement, and failed. The conference committees should be required to submit a detailed report, giving the reasons why they were unable to reach a compromise.

Secondly, a clear and precise working definition of the word “germaneness” is needed. This one word, and the manner in which it is stretched to fit individual needs, is a major problem in the Alaska legislature. At the present time, laws are passed that have no relation to the intent of the original bill, or amendments are added that are totally unrelated in context and intent to the rest of the bill. Our recommendation is that no bill be passed by either house containing more than one subject, which should be clearly expressed in the title. Amendments must remain within the scope of the bill being considered. By agreeing to operate under such a



Jan Faiks
State Legislative Chair,
General Federation of Women's Clubs,
FREE Committee

"bill content" rule, the common procedure of bill "piggybacking" would be eliminated. Legislators could then vote on the merit of a bill without having to consider the consequences of a piggyback.

This proposal is not without precedent. Located within the first few pages of the joint rules manual of many states is a specific, no exception allowed, "bill content rule". FREE feels this one procedural change would have far reaching effects, resulting in more responsible legislation.

My final point this morning. At the present time, there is not adequate public notice of committee meetings and their agenda; persons with interest in a particular bill might read in their local newspapers that a committee meeting was held on that particular bill **yesterday**. Due to the travel time involved, FREE recommends that a minimum of 5 days is necessary to inform the public of committee meetings. Notice and agenda could be placed in the press room and throughout the network of legislative information offices. We realize the legislators would find this change cumbersome at first, but not impossible to comply with. It would serve a dual purpose — the public would be better informed, and the legislators would have the opportunity of better organizing themselves.

Those of us on the legislative study committee were surprised and sometimes shocked at the indifference to, or lack of, legislative procedures. On the other hand, we were impressed by the willingness of our legislators to give us their time and their honest evaluations of legislative procedures.

We do not do everything right in Alaska, but there are those in both the public and private sector who sincerely desire change, in an unselfish effort to make Alaska an even better place to work and to live. By working together, we are beginning to focus on some of our problems, and the resolution of these problems will be a clear next step. The FREE Committee is committed to the enrichment of Alaska life, and we can not help but feel that the employment of realistic legislative procedures will help achieve this goal.

“State Tax Policy”

My topic this morning is tax policies and I must believe that every one of you in the room are sincerely interested in that subject. The history of personal and business taxes in Alaska should, in my opinion, be just that — history. Most of you in this audience are only too well aware of the mercurial and unstable tax policies of Alaska during the past 30 years. The attitudes of too many bureaucrats and legislators simply do not reflect the positive future seen by the private sector of the Alaskan business community, given circumstances and conditions we believe should exist in the future.

Our vision of Alaska, of tomorrow, does not and should not include continuance of general corporate income taxes, fuel taxes, property taxes, and of other nuisance taxes that are presently a part of the Alaskan statutes. The relationship of these taxes to the total unrestricted revenues, is miniscule as we'll see in just a moment from the statistics I've gathered. We the voters and the citizens of Alaska number approximately 400,000 strong, yet a few hundred elected officials and appointed bureaucrats are tightly holding the line with illogical pronouncements and through the use of what I categorize as scare tactics. Let's examine a few of these people's comments and I'm sure you'll recognize some of the quotations.

“The pipeline may be sabotaged, or destroyed by earthquake or war. Our state's revenues would cease and without individual and corporate taxes we'd be bankrupt.”

Or,

“People will not be active or interested in government unless they pay taxes.”

Or,

“The Prudhoe Bay oil wealth will cease in about 15 years and Alaska will have no resource revenue to replace this one time bonanza.”

Or,

“Reduction or elimination of general corporate income taxes will only enhance corporate profits at the expense of other Alaskans.”

Or,

“Elimination, modification or correction of state tax policies which fully recognizes that they are wrong, are not in the public interest in the long-term.”

Or finally,

“To eliminate taxes as recommended by PASIT, Commonwealth North, the Resource Development Council, the Chamber and many other citizens groups would have grave implications for the financial future of the state.”

The list of such quotations is almost endless. We've all read them in the news media, heard them over the radio and television, and like so many other issues in our society, if they are stated enough times people will believe them and the statement will be accepted as factual. There's one basic fact, that we, the productive force in the society, must literally shout from the roof tops — there is nothing wrong with a profit earned by free people in a free market environment without the restrictions of onerous taxes. Government cannot continue its unrestricted growth and must not be allowed to play the role of Big Brother who knows best. This syndrome is the basic gut reason for inflation, unemployment and recessionary trends.

Let's look quickly at some numbers to support my previous statement that the general corporate, fuel and nuisance taxes are a miniscule portion of our total unrestricted revenue. The published Department of Revenue statistics show that in fiscal '81 we're going to receive in excess of \$3.6 billion. Five categories of petroleum revenues account for slightly in excess of 90% of this total. All other non-petroleum revenues comprise \$361 million or 9.9% of the gross. Of this total general corporate income taxes on our mom and pop businesses, as well as those few multi-national corporations in the state, total \$29 million or eight tenths of one percent of the total. Fuel taxes will generate \$27 million or seven tenths of one percent of the total. In 1982



Lee Fisher
President, PASIT
(People Against State Income Tax)
Past President,
Resource Development Council, Inc.

these percentages drop even further. The total projected revenues are slightly under \$5 billion. Corporate taxes represent seven tenths of one percent, the fuel taxes one half of one percent. Yet, we are repeatedly told these taxes cannot be eliminated or reduced.

I suggest to you that the easiest way to benefit all Alaskans with our resource wealth and without going to the Supreme Court is through tax reduction or elimination.

“Revenue Sharing”

I stand before this group today as a representative of the single largest consumer of state revenues. I want you to know that in this environment that makes me a little uncomfortable. However, I would like to pass along a lesson to this organization and all of you who were so kind to get up this morning, a lesson that I learned at my parents' knee and that I'm trying very hard to teach my children. I think it's a fine lesson if all of us were teaching our children and practicing this in state government. It's called prudence: prudence in saving, prudence in investment and prudence in spending. That prudence has led the Anchorage School Board and many of its members to develop an idea which has been shared with many of you already but which we are going to be pushing very hard in the legislature. It essentially comes under the name of an educational endowment fund. As Mr. Richards indicated to you, one-third of the state revenues are now dedicated to education. The Foundation Act alone consumes almost \$300 million a year. And that does not include any of the capital expenditures.

These large increases have come because of assuming an increased responsibility for the education of our own children. And with that the lessening of the involvement of the federal government in our educational system. However, at the current rate of expenditure, coupled with the inflation rate, we can only continue to fund the Foundation Program while the oil revenues are virtually inexhaustible.

It is for that reason that we propose that the legislature set aside perhaps 10 to 20% of its revenues during that time when the oil revenues are very, very high. This could be even as much as a billion dollars a year. This fund would be dedicated exclusively to funding elementary, secondary and university education.

In the next decade when the oil revenues decline substantially the proceeds from this fund would be used to supplement the educational foundation funds. It is not the intent to totally supplant the current Foundation funding program.

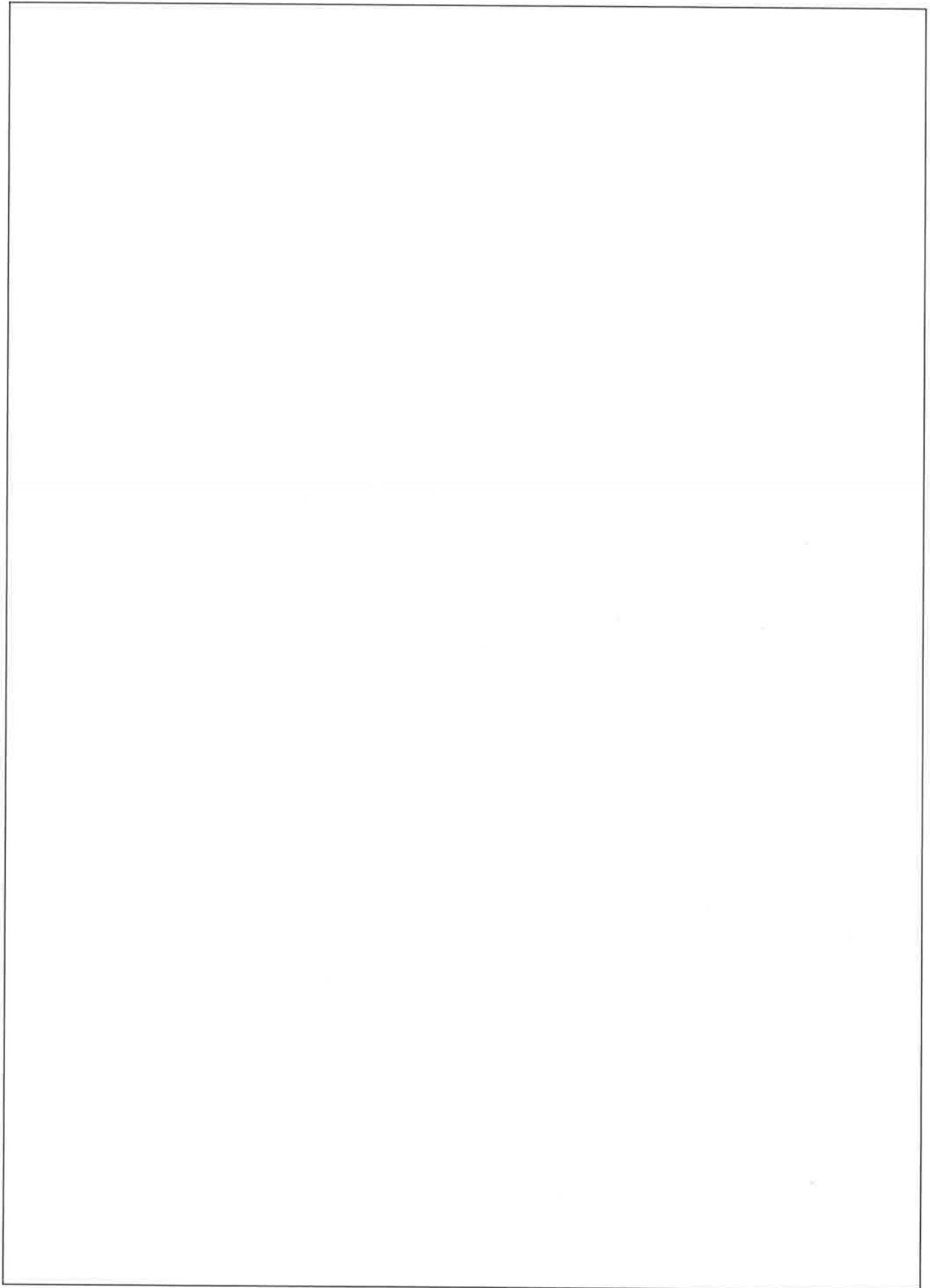
I would like you to understand that an educational endowment fund cannot truly be an endowment in perpetuity. With the rate of inflation as it is now it will eat seriously into the investment capital generated by the fund. Nevertheless, it will significantly stretch the value of our oil dollars by purchasing education for future generations.

There are some serious considerations in establishing this kind of fund. In fact, we may already have the fund established in the Alaska Educational Fund which is currently written. There may be some Constitutional problems — we're working on that right now. But we feel it's a sound move to take so that we can get a handle on spiraling education costs and bring them under control, but we must get a handle on inflation at the same time.

I'd like to take my last 30 seconds to push one more thing. I look across this room and I see a tremendous amount of talent from throughout the state. Everyone talks about the problem of expenditures, including educational expenditures. I would hope that some of you would do something about it by running for elective public office and aiming at the local level, indeed at the school board level. It is no longer, if indeed it ever was, a motherhood and apple pie job; it takes a tremendous background in financial analysis, labor relations, demographics and planning and an understanding of the grassroots educational needs as well as the changing technology in education. I would hope that each of you would seriously consider making a commitment to your community by serving in an elective capacity.



Heather Flynn
President, Anchorage School Board



“Controlling State Government Spending”

It is my pleasure this morning to bring to you a positive program that the State Chamber of Commerce has initiated to see to it that the people of Alaska have an opportunity to express their views on the state spending limit.

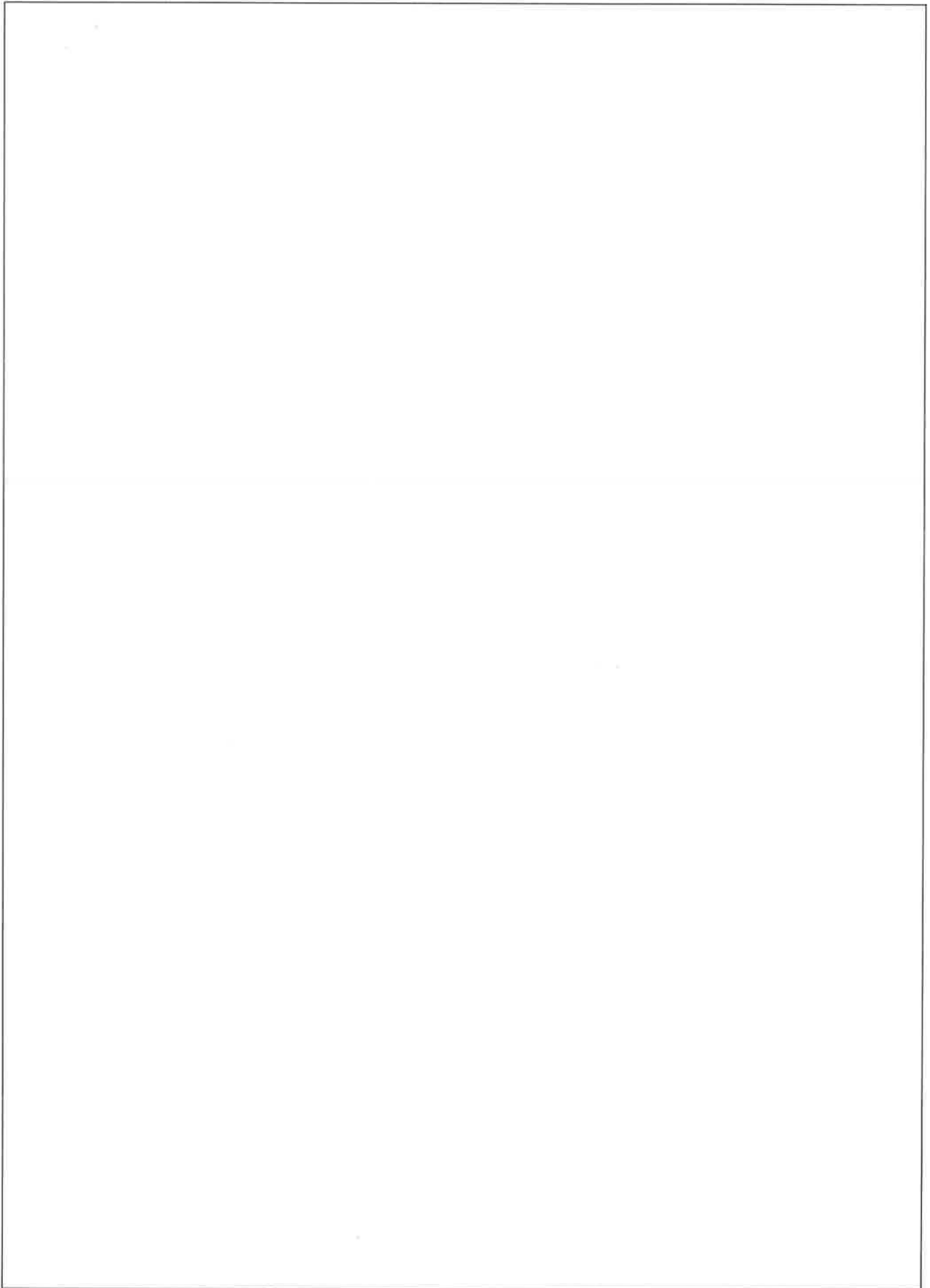
Several years ago, and this has been an ongoing concern of the State Chamber of Commerce and a handful of people that serve on their board, they conducted a poll to further their concern among their members as to how they felt about limiting state spending. The results of the poll from the question that was asked was, “Should spending limits be tied to an annual cost of living and population change?” An overwhelming 81% responded in the affirmative. Since then, Common Sense for Alaska conducted a similar poll and found added public and strong support. With that support behind the State Chamber’s initial poll this past October in our meeting in Juneau we launched a petition to limit state spending and in less than a half a day acquired enough signatures to present the petition to the Lieutenant Governor’s office, of which it has been certified. We are going forward with our petition. Sponsors who initially have been certified on that petition will be charged with the responsibility of acquiring a minimum of 13,000 signatures. From that the petition will be placed on the ballot, hopefully in 1982, of which all of the voters of the State of Alaska will get an opportunity to express their views.

The purpose and mechanics of the petition will be tied to the budget that will be established for operating the State of Alaska in this next coming legislature. They will be charged with the responsibility of establishing a base year and from that the only changes that can be made in the expenditures will be tied to population increase or decrease and the per capita income of the State of Alaska which would be taking care of any inflationary items that would increase the cost. There will be exceptions made to the budget for emergencies such as disasters that might happen, acts of God, of which then the Governor would declare an emergency and be allowed to spend money.

We at the State Chamber agree with the remarks of the Lieutenant Governor and others here today that our state spending is far and away reaching beyond anything comparable to anywhere in the United States. We have taken the step to bring this to the people of Alaska. I’m sure that we’re going to make it happen. We’re going to acquire the signatures and you’re going to get the opportunity to express your views.



Vern Hickel
Board Member,
Alaska State Chamber of Commerce



“Efficiency in Government Operations”

McDonald's, the hamburger people, is currently selling 2.75 billion hamburgers a year.

Through October, 1980, McDonald's had sold 34 billion. At 2.75 billion per year, McDonald's will sell, by 1992, 67 billion hamburgers.

In 1992, that 67 billion burgers will match the projected state surplus . . . dollars for burgers. Hopefully, some of the same management principles that have and will guide McDonald's to its 67 billion served will guide the state in its 67 billion saved.

Perhaps this is simplistic, but with all of that wealth and all of the schemes for its disposal . . . the private community does have some answers to what I believe to be our greatest problem.

In my view, that problem is **how not** to build a gigantic government structure to manage our rich state.

In the history of these United States, government, whether it be municipal, state, or federal has had a very poor track record for reducing spending. Four years ago, a team of 45 business executives set out to study how to improve the efficiency of our state government. I was vice-chairman of this effort.

In 16 weeks we developed 362 recommendations for improving state government functions.

We calculated that 83% of our proposals could be accomplished through administrative actions . . . requiring no change in statutes.

If our proposals had been fully implemented, there would have been a savings of more than \$70 million a year plus one-time benefits of \$10.6 million and federal savings of \$4.1 million.

Only a portion of our recommendations were adopted, and yet the achieved benefits total \$44 million annually and \$6 million one-time savings.

The weakness of our 1976 effort — seen from hindsight — was our failure to establish a permanent citizens' watchdog committee to see that our recommendations were followed and failure to identify on an on-going basis additional efficiencies which could be implemented.

Recommendation #2 of our '76 study was to establish a constitutional limitation of government spending and growth in employment. This ceiling on spending only solves part of the problem.

Even if a lid is placed on government growth, it does not guarantee, in any fashion, that government services will be delivered in a timely and efficient manner.

The management of any private enterprise has some basic practices which would aid in the efficient delivery of government services.

For instance:

Why not have periodic evaluations of budget programs with an eye toward elimination and cost reduction? Does each prior year's program have to continue?

Do we need sunset legislation which forces regular reviews of each state program as a practical government performance review?

Why not establish productivity standards to measure the effectiveness of a program . . . and how efficiently it is being administered?

As an example, do the various loan programs exceed desired delinquency criteria? Are collection efforts meeting established standards?

Why not establish specific goals for each program with a realistic action plan to insure its completion in a cost efficient manner?

Each of these management techniques is used in some fashion in the successful business.

It is particularly imperative with our new found wealth that our governmental agencies adopt these procedures.

This philosophy is not anti-government.

In the long run, the people most hurt by inefficiency and waste are the state employees themselves.

Every human being wants to be proud of what he accomplishes after a day's work, a year's effort, or a lifetime career.

Esprit de corps is critical not just for efficiency but for personal happiness. We've learned in our company that it can be taught. It's a question of attitude starting at the top.

Our job as Alaskans is **not** to make life more difficult for those who dedicate themselves to government



William Pargeter
Former Vice-Chairman, The Governor's
Management & Efficiency Review Committee

service. Our job is to make life more meaningful for them and for us all.

In this way, critically needed services will be delivered efficiently . . . capital improvements will be built that help all of us and make us proud of our accomplishments . . . and it is all done with a real sense of satisfaction.

Then we can share in our community accomplishments . . . and Alaska will stand tall in comparison to any other state in the union.

“Commonwealth North’s Revenue Study”

I want to tell you before I present some of my conclusions that John Mlakar was a dedicated and hard working member of our committee and many of his thoughts are in this document.

The Challenge of Plenty, now that Alaska has capital to work with we indeed have a formidable challenge. There is probably no disagreement that we should put behind us the colonial economy that has dominated Alaska’s history. We can end our dependence on outside government and markets that have determined Alaska’s growth and progress to date. But we must be deliberate about what we want to replace it. If present trends are left unchecked we are likely to have an economy dominated by state government that would be even more of a burden than the colonial economy we are glad to abandon.

If this drift towards statism is allowed to continue Alaska will remain in much the condition it has been. There is an alternative — a market economy for Alaska. With a market economy we would look to private enterprise, not government, to provide many of the services we require. We would look to private business to provide the jobs we need. We would look to the private sector to provide investment capital. And we would look to the Alaska marketplace, not government or outside markets, to bring about a better way of life for all Alaskans.

This past week Commonwealth North published a report, *Resource Revenues and State Spending: Alaska’s Golden Opportunity*. It serves as a blueprint for establishing a market economy in Alaska. And let me focus on just a few of its conclusions. The report calls for the creation of an Alaska investment fund. It will meet the extraordinary infrastructure requirements of our very young and undercapitalized state. Its purpose will be to channel a portion of surplus revenues and to financing large scale projects of a complex nature that legitimately should be built by government. We would like to see at least one quarter of state revenues assigned each year to the Alaska Investment Fund.

Alaska requires new energy and transportation systems in order to develop a commercial and industrial base that will lead to a stable economy in the future. With the Alaska Investment Fund we will be able to make our own decisions and implement them to bolster Alaska industry and commerce and to bring about needed improvements in our way of life. This fund will also enable the private sector to grow and the governmental sector to contract.

The Alaska Investment Fund can be used to construct deep water ports, rail lines, airports, boat harbors, and hydro-electric systems. There is little question that investment will follow these projects providing productive employment for Alaskans and additional state revenues when current sources diminish.

It must be emphasized, however, that the Alaska Investment Fund by itself will not bring about a shift to a market economy. There is no better, clearer or faster way to nurture a market economy than to eliminate personal and corporate taxes. No other single action bears more promise for creating a sustainable broad-based economy to compliment the extractive industries. If Alaska is truly dedicated to developing a diversified economy, tax relief is the most direct and expeditious method to date. Our report recommends that the Legislature continue its positive steps in this direction begun by repeal of the personal income tax. Property taxes and fuel taxes should be eliminated. Tax relief should be provided to Alaska businesses and taxes should simply be established to encourage the re-investment of corporate profits in Alaska.

It is crucial, however, that tax relief be accompanied by a fixed lid on both state and local spending. Without it our present good fortune will soon vanish. The chart (on the following page) is a good illustration, \$27 million in 1960, you can see what the top figure is.

The Commonwealth North committee recommends that government spending be tied to fluctuations to the personal income and the non-governmental work force. For example, this would have meant an increase in 1979 of less than 7% over 1978. Instead the actual spending increase was about 24%.

A lid on government spending is the real solution to many of our economic problems. And having established such limits tax repeal can remain in effect for many years to come. Our surplus funds in the immediate future can be used to strengthen our energy and transportation systems through the Alaska Invest-



William Sheffield
Chairman, Commonwealth North
Resource Income Committee
Past President, Alaska State
Chamber of Commerce

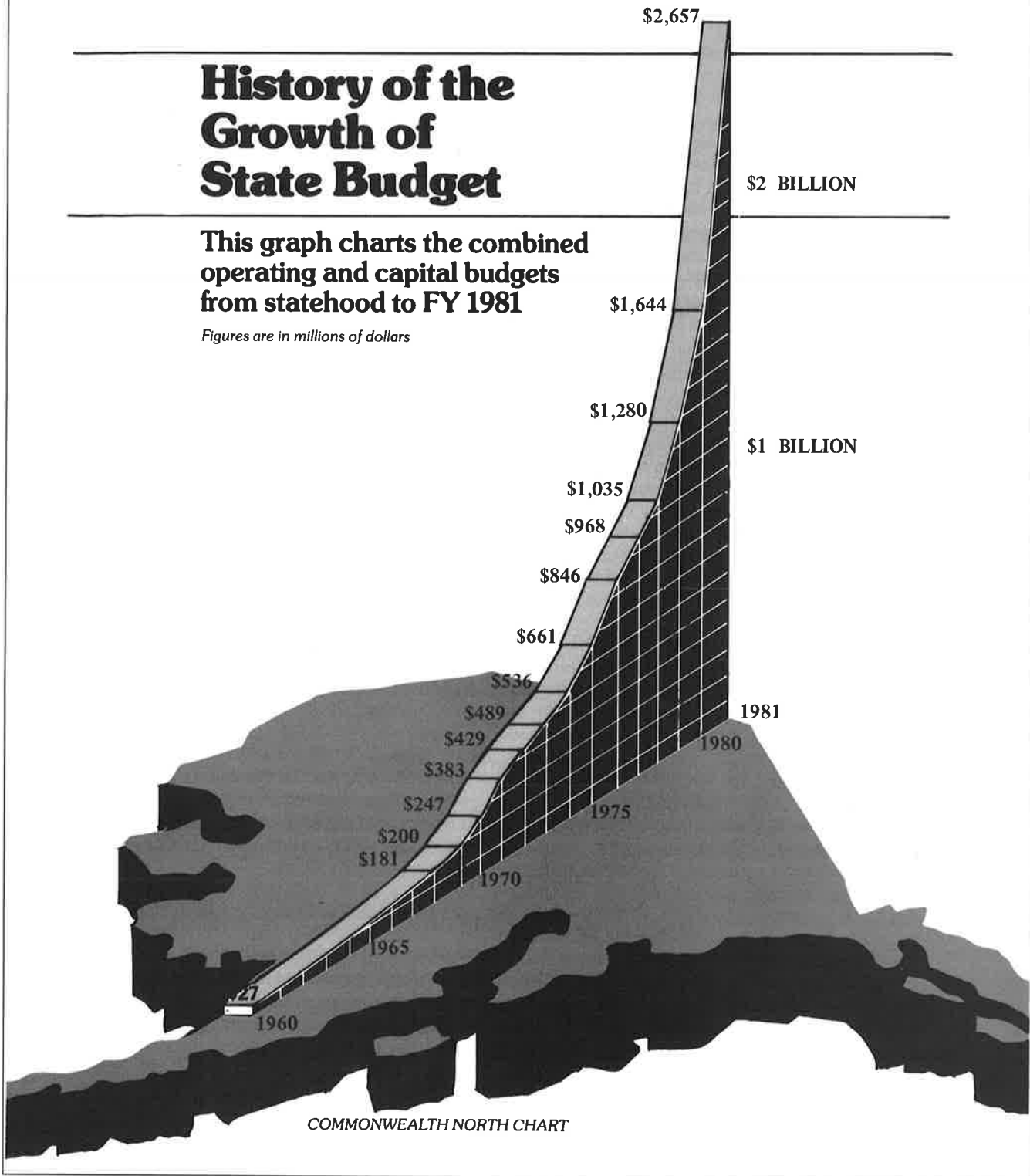
ment Fund. The long term result will be that Alaskans themselves, not just the government, will accumulate the capital necessary to build a secure, healthy and regenerative market economy. This is Alaska's golden opportunity. It would be most unfortunate if we squander it.

We can demonstrate here the benefits which result from giving our citizens a chance to participate in establishing a strong economy backed up by government, not run by it.

History of the Growth of State Budget

This graph charts the combined operating and capital budgets from statehood to FY 1981

Figures are in millions of dollars



“Major Sources of State Revenue”

I've been asked to discuss the source of the “plenty” in “The Challenge of Plenty.” Since my employer and the industry that we represent is the major source of these revenues this is probably appropriate.

During the current fiscal year well over 90% of the unrestricted state revenues will come from royalties and taxes on the oil and gas industry. In addition, 25% of all royalties will flow into the Permanent Fund. With current tax laws this share is projected to increase to about 95% in fiscal year 1982. Well, what about the future? As Bob Richards pointed out, and I agree with him, it's very difficult to project revenues over a long term because they are so dependent on inflation and the price of oil. But several different estimates of revenues from Prudhoe Bay are available and they vary somewhat depending on these assumptions.

One fairly recent reasonable looking estimate covering the next twenty-five years, through the year 2005, shows the State of Alaska will receive about \$173 billion from Prudhoe Bay over that period, and that counts only oil. With all the uncertainties as to timing, price controls, deregulations and a myriad of other factors, no one is brave enough to predict gas revenues, but one thing is certain, they will also be huge.

What percentage of the state revenue will this \$173 billion constitute? Well, obviously it will be the lion's share. But the exact percentage is dependent on the entire tax structure of the state. Individual income taxes were repealed this year and proposals have been put forth from various quarters to reduce or repeal corporate income taxes, municipal property taxes, sales taxes and transportation fuel taxes. If all these taxes are in fact repealed there will be a few taxes left on businesses of various kinds producing a miniscule percentage of state revenues. Individuals will only be taxed when they buy a fishing license or when they buy alcoholic beverages or tobacco or their estates when they pass on. Oil and gas will be essentially the 100% source of state revenues.

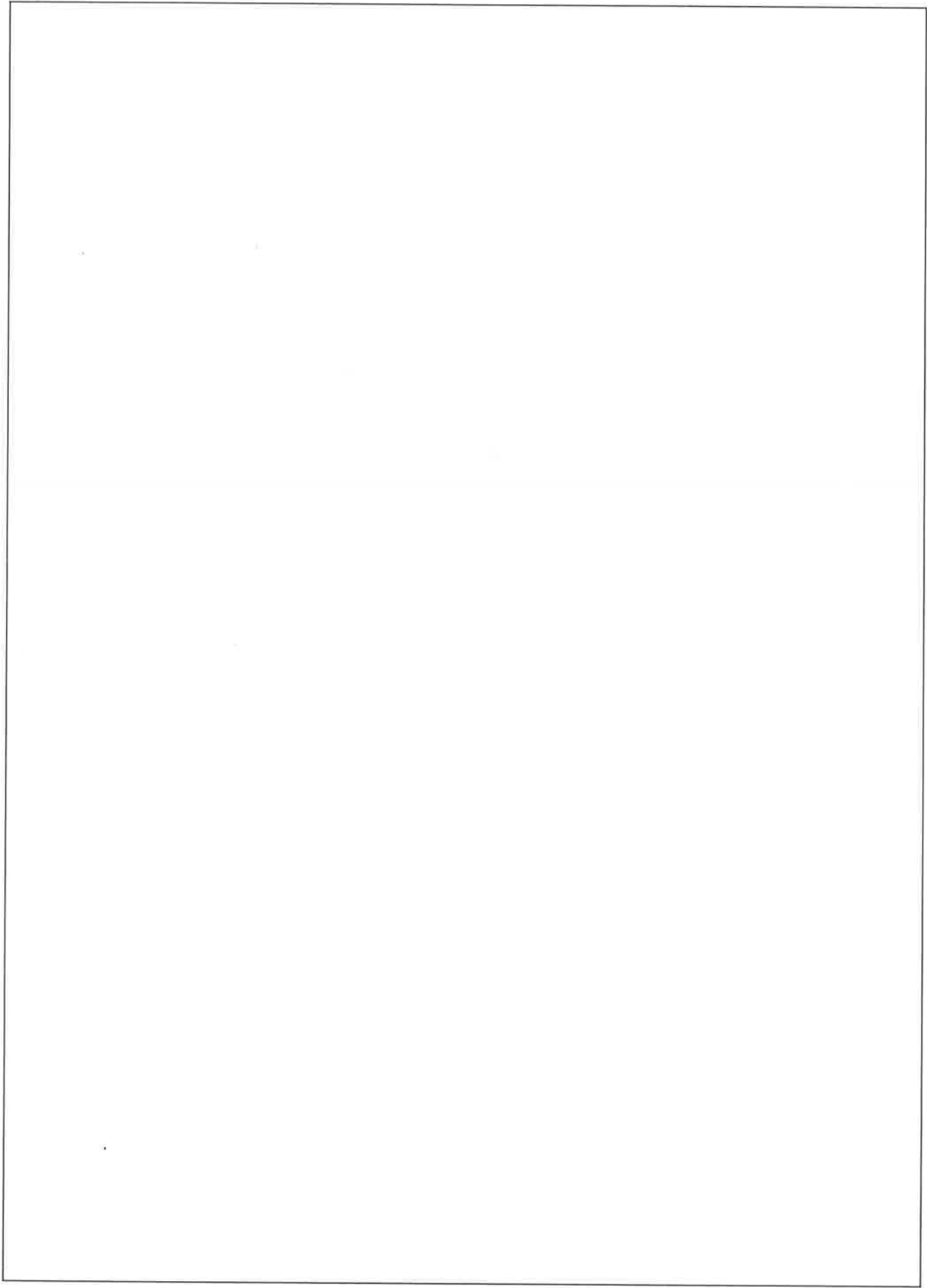
What makes up the \$173 billion dollars? Well, about \$75 billion is the state's 12½% royalty share as provided for in the leases. 25% of this will automatically go to the Permanent Fund with additional deposits at the discretion of the Legislature. Some \$50 billion will come from the 12¼% severance tax on oil removal. Another \$5 or \$6 billion will come from the only state levied property tax, the 20 mil oil and gas production and transportation property ad valorem tax. And the balance of the \$40 + billion will be collected by the special oil and gas corporate income tax.

We hear much said about diversifying sources of revenue or using appropriate revenues, but our not too cloudy crystal ball indicates that state policies are in fact moving toward total reliance on oil and gas. The actions don't always match the rhetoric. If this is the direction that the state decides to head, then it would seem appropriate to examine the leasing schedules and the regulatory and the tax regimes to make sure that the oil and gas industry is sustained and encouraged toward exploration for and the production of oil and gas for many years into the future, when Prudhoe Bay will no doubt be exhausted.

To date, we've seen a little bit of encouragement on leasing schedules, but there is much controversy and uncertainty over the exact schedules. Every other move by the state has been calculated to take a bigger share of the pie, whether it's through state taxes, net profits royalty shares, or the reluctance to even recognize the federal excise tax, which was politically named the windfall profits tax, as a legitimate expense when calculating our state income taxes. This is hardly a course calculated to encourage exploration, particularly when potential reservoirs much smaller than Prudhoe Bay are considered. There appears to be a vast potential for new production over many years in and around Alaska. A reasonable climate and a stable government policy would do much to assure many, many years of mutually beneficial activity by the oil and gas industry. We are hopeful and optimistic that such conditions will prevail.



Kenneth Showalter
Chairman, Alaska Oil & Gas Association
Government Affairs Committee



“Limiting Municipal Expenditures”

The distinguished panel that I join this morning has addressed a lot of the important issues, but they really have omitted the number one problem facing Alaskans. I'm indebted to Deputy Mayor Crawford for advising that in the year 2073 the price of a Big Mac will be \$1,126.00.

Now, speaking of Mr. Crawford who provides me and other members of the Assembly with useful statistics like that, I really have to speak a word of praise to him and Mayor Sullivan and members of the Mayor's staff. And I'm not being kind to Mayor Sullivan only because he's ineligible to run for re-election. The fact of the matter is, we have just completed the budget process and let me talk to you about municipal discipline as exemplified in the last budget we have just acted upon. The projected mil rate increase for the Anchorage Bowl, and there is an increase, would go from approximately 12.1 mil to 12.4; but that does not include the anticipated funding of municipal revenue sharing requests which we will bring to the legislature. That occurs in a year with an almost all time low in increases and assessed valuation from the prior tax year. As to new positions, the Municipality will have a total of approximately 35 new positions, about 30 of them being People Mover bus drivers, the balance being in the general government service area.

But I and certain members of the Assembly support some external disciplines for us, too. We think that what's probably good policy for the state would be good policy in the Municipality. And so we will be offering in January, I expect, local legislation which will provide a formula that will guarantee that any increases from an annual to annual basis in Municipal expenditure level will be related to the size of Anchorage's growth or voter mandated services.

Why are we doing that? First of all, we had a recommendation from our own Citizens Budget Advisory Committee which looked at the Sullivan proposed budget, thought it was a tight budget, but recommended that we assure taxpayers of the long term direction of Anchorage by providing fiscal planning with some kind of external limitation.

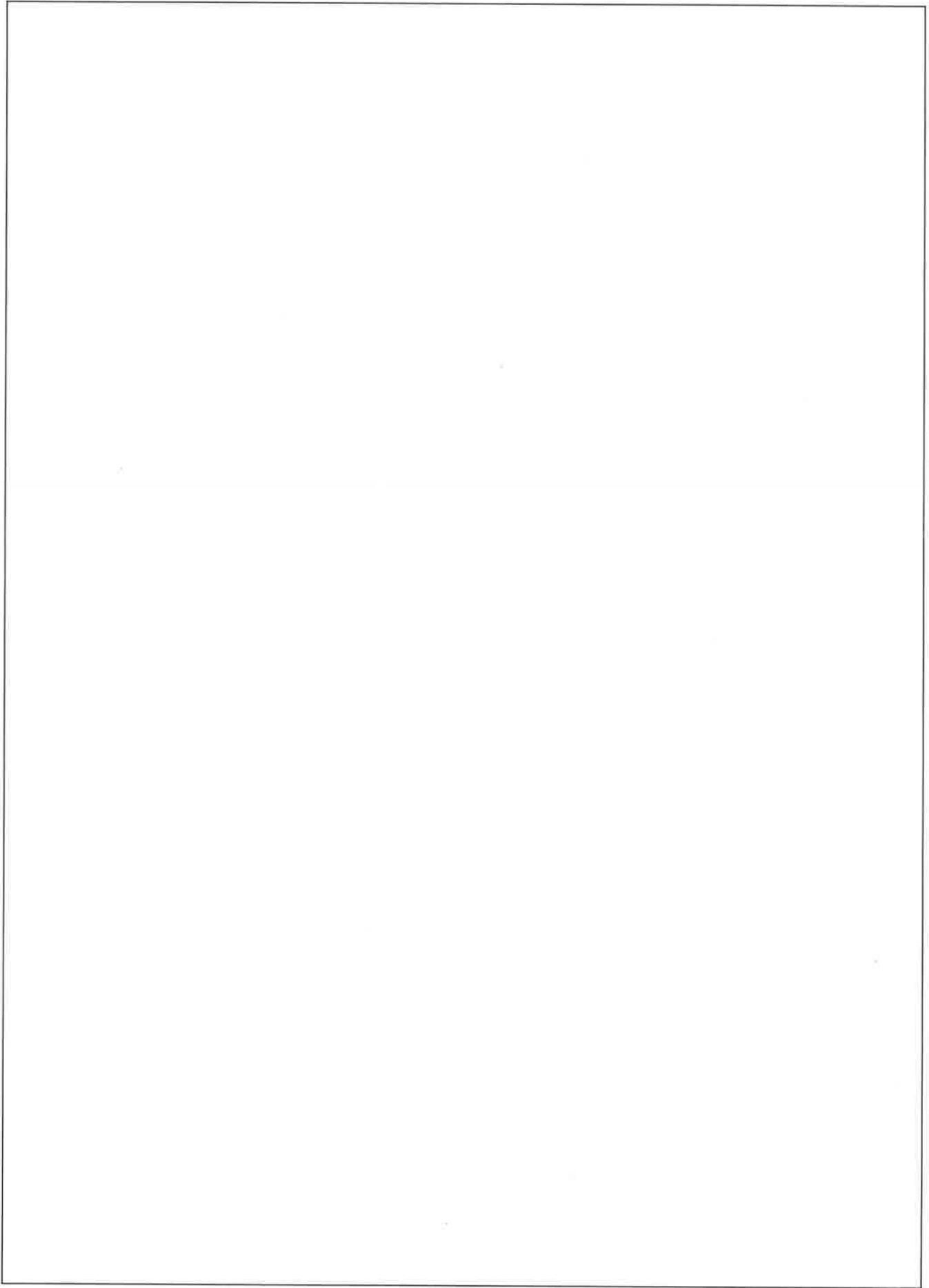
Secondly, as one representing the downtown area where a lot of social service programs which are really dear to my heart serve the people that I represent, I want to avoid the kinds of peaks and valleys which could jeopardize existing programs and prohibit or forbid orderly planning.

Third, we don't have one important ingredient which I think would involve the public more actively in the budget process, a benchmark that would occur if we could somehow set a mil rate at the same time we approve a budget. We don't do that. So public concern about local budget making often comes about months after the budget expenditure level has been set by the Assembly.

And fourth, as you know, we are going to go to Juneau and we are going to seek revenue sharing that will provide for lower property taxes here. I think that as an ex-legislator that with all respect to the home rule powers that are dear to my heart and the local options that I think are important to good government, legislators have a right to ask how assemblymen and the mayor will handle funds that are channeled from state government to local level. So, I would like to see developed, and certain of my colleagues have expressed themselves on this, as a compact of good faith between us and the state government, an indication through local legislation that those revenues will be passed on to municipal taxpayers in the form of reduced taxes, and that while we cannot bind future assemblies, we will require a benchmark that will limit the growth of local spending to a rational formula. That program will be introduced in the Assembly within a month and we'll be working with the staff of the Mayor to develop a rational formula that I hope many of you can support.



Joe Josephson
Former State Legislator
Assemblyman, Municipality of Anchorage



QUESTIONS TO PANEL BY MEDIA REPRESENTATIVES AND AUDIENCE, AND ANSWERS:

Note that this exchange is from an actual transcript of the meeting and participants have not been given an opportunity to edit the remarks you are about to read.

The Media Panel was composed of the following members: **Joe Gallagher** of The Alaska Public Radio Network; **Flip Todd**, a well known Freelance Journalist; the Honorable **Vincent J. O'Reilly**, who handled written questions from the audience.

Question to Bill Sheffield: Could you clearly define for us the differences between the Alaska Investment Fund and the Alaska Permanent Fund?

Bill Sheffield: The Permanent Fund, of course, was voted on by the people to put 25% of your royalty revenues — oil revenues — into a permanent fund. The Permanent Fund can be invested in securities to gain an interest in the fund. But the only thing that can be spent from the Permanent Fund are the revenues — the interest that it gains each year. Those revenues are put into the General Fund and used. The Permanent Fund remains intact. Our committee dealt with this for about five or six months trying to see if we couldn't recommend the restructuring of the Permanent Fund so it could be used as we want the Alaska Investment Fund to be used. We found that the Permanent Fund was rather sacred to the people of Alaska. To accomplish our objectives of the capital projects we created the Alaska Investment Fund idea so that 25% of our oil revenues go into that fund and that fund can be invested to gain in interest while the fund's not being used. But, we would then prioritize what capital projects are in the State of Alaska — and I mentioned several; hydro-electric, boat harbors across the face of Alaska, deep water ports, rail systems and so forth. We would put those capital projects into this fund, transfer money from our surplus revenues into this fund and draw from that fund as we need to develop these projects.

Very simply, the fund would sit there as a construction account, you might say. You draw from it this year, you need another \$4 billion three years down the road; or if you know Susitna Dam might cost \$4 billion and you're not going to need it all this year, maybe all not in the third year, but in the tenth year you'll need some more. So, this would just be an investment fund sitting there to draw from for those construction projects.

Question to Bill Pargeter: According to Bob Richards we have lost control of our budget in the state and local government jobs, but I haven't really heard exactly what jobs are unnecessary and what state agencies are unnecessary. I was wondering if your review committee singled out any certain agencies of government that are unnecessary and ought to be axed.

Bill Pargeter: In 1976 it was a little different than it is now as far as agency employment. I mentioned that recommendation number two was the Constitutional lid on spending. I assume someone would be interested in what recommendation number one was; the reorganization of the Governor's office and the tremendous number of commissions that report directly to the Governor. I believe we abolished 34 or 40 that were there. We got them down to a half dozen. The tremendous costs of traveling to Juneau to attend these meetings, even though they were free, as well as the regulations and what not that come from there are one of our major concerns and gripes. That was number one throughout all of the agencies themselves. I don't believe we necessarily abolished any agencies. We did redirect some of the areas where they were to report. And, when you look at attrition alone — it could have and did save us considerably. The problem, of course, is ongoing.

Question to Jan Faiks: In regard to your organization FREE, has FREE considered the possibility of requiring more than the present simple majority for spending measures — say a 60% or 2/3rds majority requirement? This could be done by Constitutional amendment or legislative vote. Would you care to comment on that?

Jan Faiks: Yes, we had 16 topics that we discussed over a three month period and put in about 200 hours. One of those topics was a limit on budget expenditures, both operational and capital budgets. The topics were so extensive and the comments were so varied that we have decided to not comment on that portion at this date in time and look up what other states have done in the forms of their uniform rules — how they've handled budget and money matters. I would like to comment though that in the ten uniform rules I have been able to read the Finance Committee is not one of the hot items in the other states. They don't have the money so no one wants to be on the Finance Committee. And they encourage the joint meeting of Finance Committees in these other state legislatures, or at least they appear to.

Question to Lee Fisher: What posture do you take towards the various oil and gas income taxes, severance, special property taxes, royalty taxes and fees — repeal, reduction or modification?

Lee Fisher: I certainly feel that the oil industry is being put upon today, much in keeping with what Ken had to say, certainly the Chapter 21 tax laws should be modified and corrected. The are, as you know from reading the news media, the subject of a court test now between the state of Alaska and the oil companies. My own personal opinion and advice I've received from people with a lot of knowledge along this line is that the

State is probably in a bad position. Certainly the so-called windfall profits tax should be a deduction, interest should be a deductible item and their depreciation should be cleaned up. At a bare minimum there should be modification and correction to the oil and gas tax laws. My own personal opinion is that they should be reduced to attract further industry into the state.

Question to Lee Fisher: Lee, a general question, what are the chances for corporate tax repeal this year?

Lee Fisher: I believe that there are a number of people in this room that were with me last March when Governor Hammond promised that he would support such corporate tax, if not a repeal then certainly a severe reduction. I've also talked with Russ Meekins. He has indicated that from his position in the House he is going to be introducing legislation along that line. These are very good signs. I look for something very positive to happen, whether it's the \$150,000 that P.A.S.I.T. talks about, the \$250 that Commonwealth North is talking about or absolute repeal, something good is going to happen.

Question to Vern Hickel: What are your views on cash payments to the citizens of Alaska? Wouldn't it be better to invest these funds in needed projects?

Vern Hickel: I'm not in favor of cash payments to the citizens of Alaska by simply writing a check and giving money to every citizen in the State of Alaska. I have to agree with Lee and others here that the best way to spread the wealth in the State of Alaska is to not take it from them in the first place.

Question to Heather Flynn: Mr. Josephson said the Assembly may pass an ordinance to limit city spending if the state will pay property taxes. Would the School Board be willing to similarly limit spending?

Heather Flynn: I never presume to speak for six other people, but I think there's a possibility that we might be able to set a cap and indeed project growth in spending tied to school population and services provided over a six year period of time, as we do in our current Capital Improvement Program. And then put on a ceiling on a year-by-year basis.

I'd like to add that I hope whatever program is devised by the Legislature to reduce or eliminate local property taxes does not significantly infringe upon the rights and privileges Constitutionally and Legislatively granted to school districts and home rule municipalities. In fact, it is the position of the Anchorage School Board that we don't want 100% financing of education. The simple reason being he who pays the bill tends to control the product.

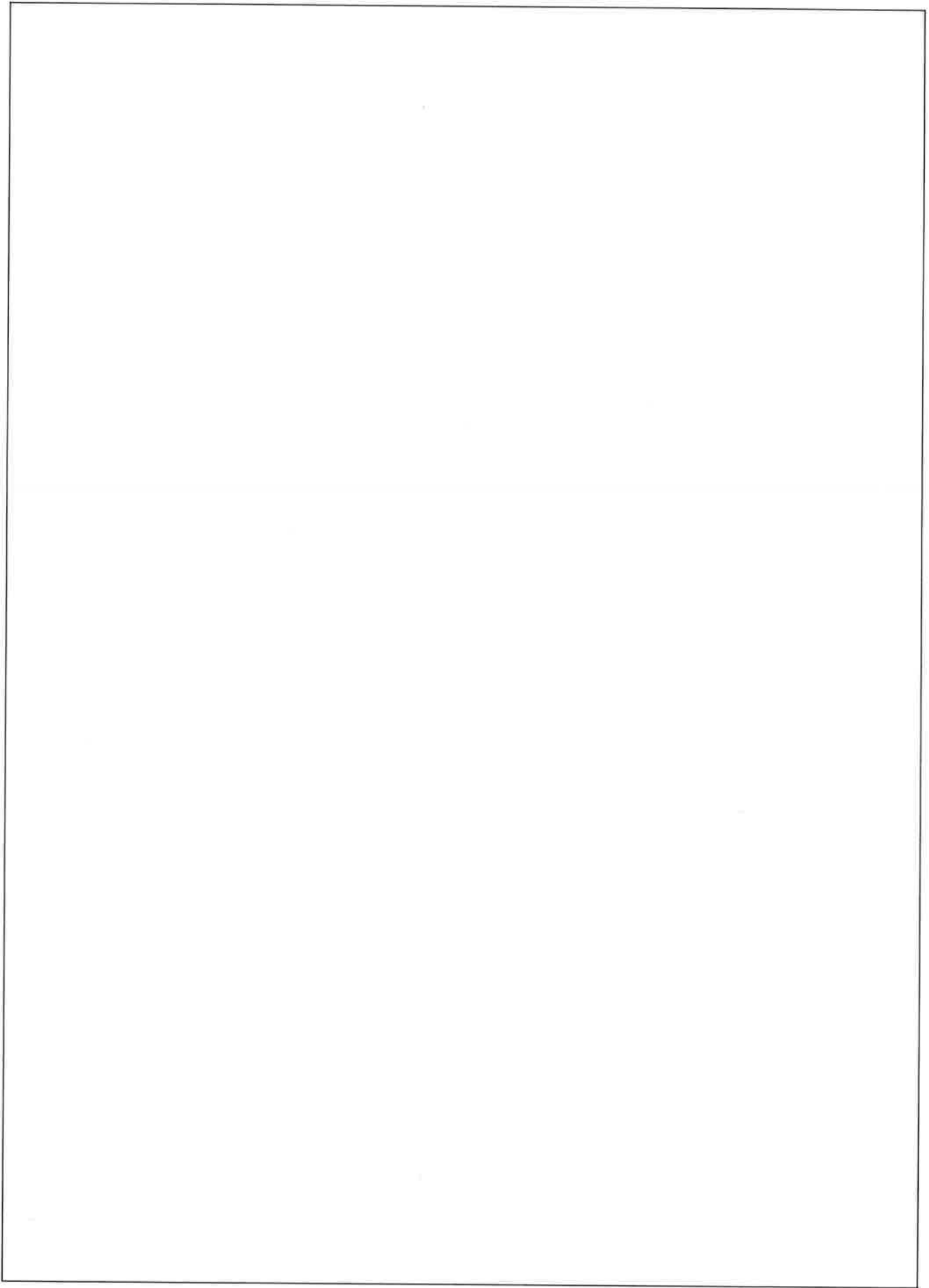
Capital Project Issues



PANEL #2

Panel #2 members represented a broad range of varying political/economic viewpoints on "capital spending" issues. As with the preceeding panel, each panelist was given three to five minutes.

Panel #2



“Jobs and Capital Projects”

Alaska has if not the highest certainly one of the highest unemployment rates of any of the 50 states and probably is one of the most underdeveloped as far as its road systems and so forth. Wherever you look there is a crying need for capital improvements. At the same time Alaska is blessed with a treasury that is going to have a surplus over its needs for operating expense. Surely this surplus can be utilized to give us the harbors, airports, roads and whatever else to give the state a much needed and integrated transportation system. Right now the state should be asking each area to prioritize their capital needs. The designing should be done by the state and should be started immediately. Our contractors should be able to walk into the state agency and know what's going to bid three months from now, six months from now, three years from now and ten years from now. The state's program should be steady and ongoing. I would hope that the state and the municipalities of the local areas would work in concert so as not to overheat our economy. For instance, if there is another pipeline that is a time to slow down on some state and municipal projects. We don't need to create a shortage of mechanics and material if there is another pipeline going. By the same token in the areas of unemployment — and I think that's the whole state in most cases right now, at least in the construction industry — the state money should be flowing in with construction projects.

There has been much ado about our money not being spent, but instead put away for the use of future generations. I do not agree with that philosophy. I think we should not waste our money. But a fine highway system, cultural facilities, interfacing of our electrical supplies, hydro projects and so forth given to future generations that are unencumbered — and I'm talking now about not going to bond on all these projects — are a much better legacy than a dollar that we do not know what the value will be. Two or three generations from now anybody who has bought a house or tried to build a house or any kind of construction at all knows that if he would have done it ten years ago he would have had twice the project or half the cost involved that you do now. And anything I can read on the economy says this isn't projected to change much.

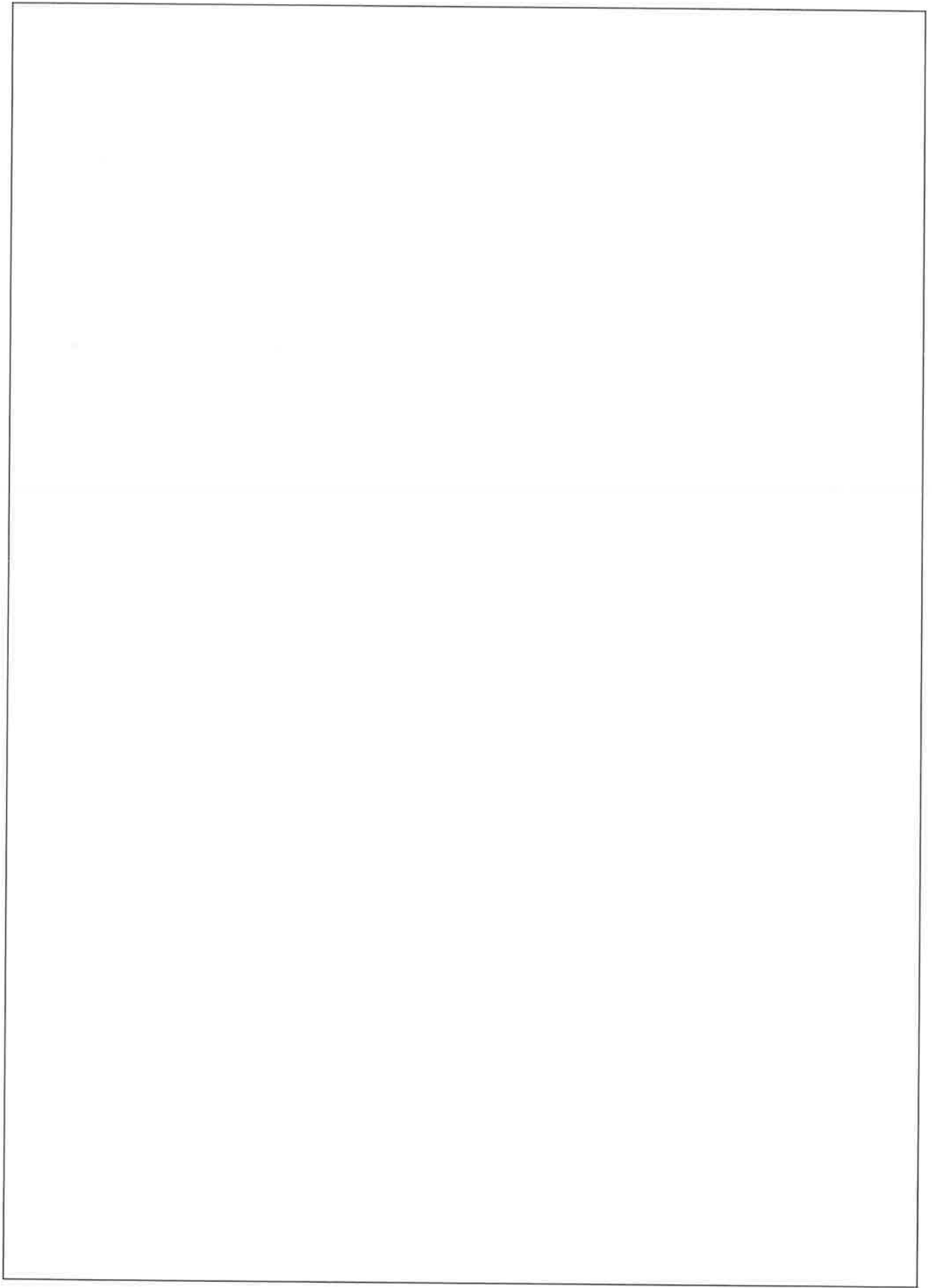
Governor Hammond in a speech last week advocated putting the bulk of the state surplus into the Permanent Fund on the premise that once people started receiving the dividends they would demand the Legislature quit spending money on capital projects. I disagree with that entirely. Our people do not want a dole, they want steady employment. I have not had a chance to study Mr. Sheffield's and other proposals on the capital project bond, but on the surface it looks very good.

I met with members of the banking community yesterday and have asked to meet with the board of the Bankers' Association, to see if we can help them more in getting long term money into our banks at a decent rate of interest. As I understand it now most of the state money is on such a short term that it can't help us on a long term basis. We hope to meet with the banking community before the session to see if we can jointly ask the legislators to take a look at this issue.

In my opinion there is absolutely no justification for unemployment in the construction industry today. If the construction industry is healthy so is the rest of the economy. Remember the oil pipeline days?



Dwayne Carlson
Executive President, AFL-CIO



“Alternate Energy Projects”

Alaska is 85% functional on oil and gas for energy. The world market will surely push the values of these resources beyond buying power of the average citizen. Conservation and renewable energies, separate from large central generating facilities hold a significant place in Alaska's rural and urban energy futures. I'd like to use the limited time available to focus on a few of the ways in which capital expenditures in this area can be made responsibly.

Amory Lovins, internationally recognized energy consultant said:

Most Americans think that if we used half the energy that we do today, that it would be the end of civilization as we know it. But that is exactly what we did in 1963 when we were at least half as civilized as we are today. This is a per capita figure having nothing whatever to do with population growth, correlating to Alaska as well as the lower 48. I am hard pressed to think of serious life style differences in those 17 years. Certainly conservation would not mean a return to horse and buggy days. In fact, in some ways it will mean greater comfort.

Renewable energy technologies have emerged in the last three years at an astounding rate. Public demand is high as witnessed by the 1 in 10 households that responded to the U.S. DOE Appropriate Technology Small Grants Program. There are 500 wind generators of up to 10KW capacity on order by Alaskans. Currently 50 wind generators are operating productively in the state. 50 super insulated or passive solar homes will be in the ground by the end of this building season. Chuck Vowel of Unalaska has produced sufficient methane from crab waste to supply cooking fuel and hot water to 20 households in his community.

The basic technology of renewable energy is here today. An effective research program like that which the Energy Center can undertake will yield more efficiency and quantify choices for rapidly expanding development.

I'd like to point out 3 specific areas of capital investment in a field of great diversity. As a frame of reference it would be useful to point that the Susitna Dam if built, would be an investment in energy of \$10,000 for every person in the rail belt.

A massive conservation program would produce more jobs per dollar invested than would most capital intensive projects. Studies have shown a one job per \$100,000 investment in capital intensive projects compared with a one in \$10,000 investment for labor intensive conservation and alternative technologies. More to the point, these jobs are local jobs; so Alaskan families need not uproot to find employment.

A super insulated retrofit of a 2,000 square foot home would cost approximately \$6,700. That would raise the insulation in the wall to R40 and in the ceiling to R55. Energy saving can be expected to be 50-75% of the heating load of the home and the home would maintain a comfortable temperature for 2-3 days should the heat go off due to power outage or supply interruption. The investment will pay itself off within 3-7 years depending on local energy costs, freeing that portion of the family's income for other purposes.

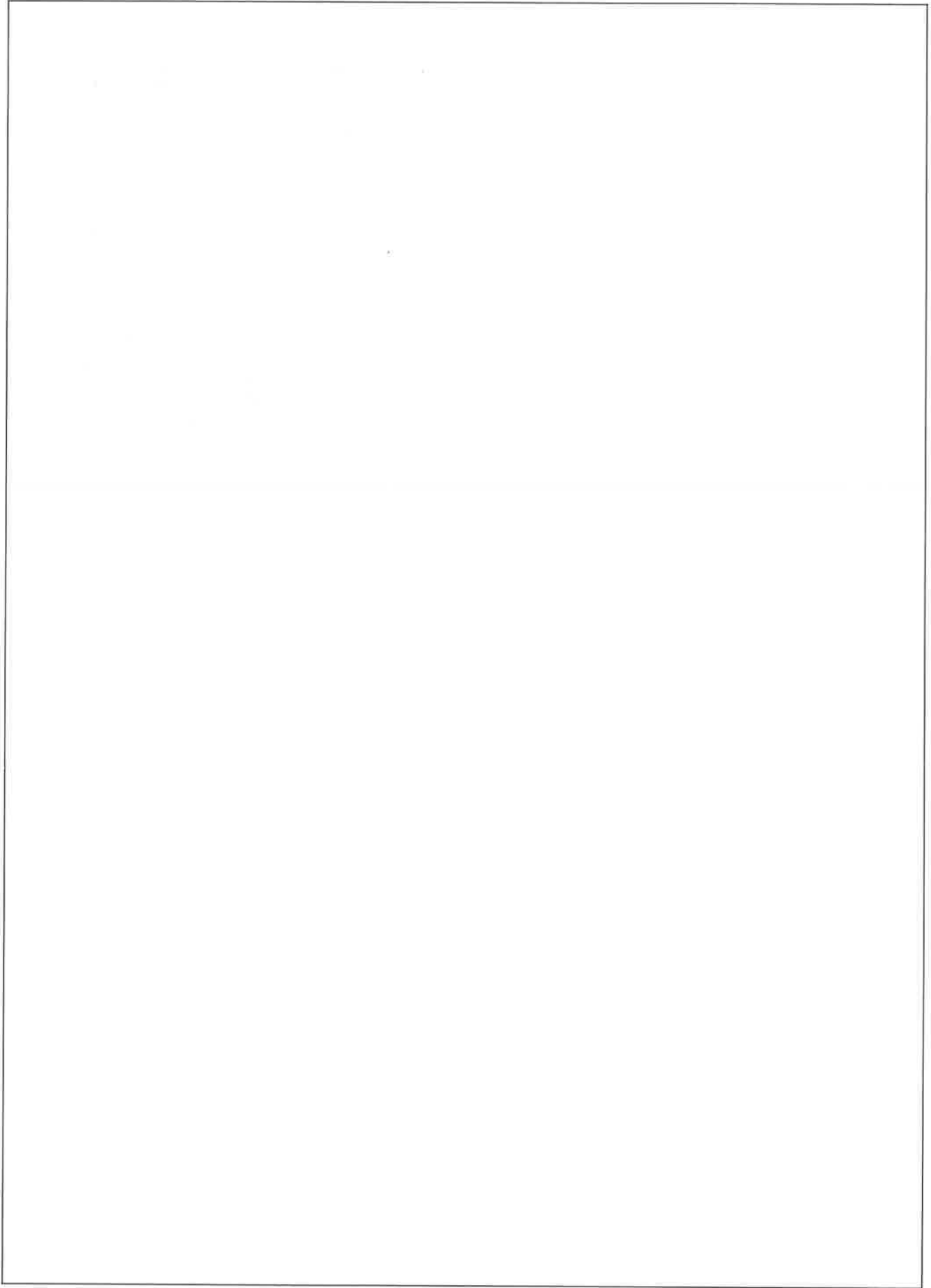
If Anchorage is a typical city in this latitude, it spends 350 million dollars each year for energy costs and as little as 15% of it ever returns. By implementing conservation that hemorrhaging balance of payments situation is amended, diverting capital back into the local economy. Since 75% of non-transportation energy in the rail belt goes to space heating in buildings, our entire building stock could be approached in this manner with significant results.

Transportation consumes 49% of all energy in Alaska. An efficient rapid mass transit system would reduce the nuisance of ice fog, energy demand for winter car heaters and traffic congestion. Surely a \$500 million appropriation for comprehensive mass transit systems in our major cities would produce a better quality of life for Alaska.

Finally, the only real hope for the bush energy situation is in renewable energy. Small hydro, passive solar, wind geothermal, and photovoltaics can eliminate or drastically reduce fossil fuel needs throughout rural Alaska. Most are cost effective already. They promise a sustainability found only by the social and economic constraints remaining before us.



Nancy Lee
Energy Coordinator,
Alaska Center for the Environment



“Anchorage Projects”

Project 80's started early in the fall of 1979 when Mayor Sullivan brought selected members of his staff together to discuss our approach to the 1980 legislative session. The Mayor recognized early that there would be a budget surplus and that we needed to prepare for the 1980 session differently than we had in the past. After several Saturday meetings we agreed that we should concentrate on funding for projects that would improve the quality of life in Anchorage and strengthen our tourism industry. We then met with the Assembly and several civic groups to discuss these projects. The response was overwhelmingly positive in each meeting. All but one project we proposed was funded in some form during the last legislative session. More than \$68 million dollars was allocated by the legislature to Project 80's.

All of the major projects are underway. The Project Manager and Architect have been chosen for the spectator sports arena and construction will begin this spring. This facility is scheduled for completion in late 1982. The project Manager and Architects have also been chosen for the Performing Arts facility, “F” Street Mall, and Civic/Convention Center. Construction on these facilities will begin this summer and they are scheduled for completion in the winter of 1983. Studies on the other projects have been completed or they are currently underway.

We expect that the tax subsidy for the operation and maintenance costs for the Civic/Convention Center and the spectator sports arena will be minimal. We have indicated from the inception of Projects 80's that the operation and maintenance costs of the Performing Arts facility will have to be subsidized. Most performing arts facilities throughout the country are subsidized. However, the economic impact on the community of this facility will match its subsidy many times over.

We propose that Projects 80's Phase II include the following projects:

Project	Amount
Museum	\$19,600,000
Hillside Recreation Development	10,300,000
Winter Recreation Development	6,400,000
Performing/Visual Arts Center	13,750,000
Phase II: Musical Comedy/Opera House Beautification	15,000,000
Pedestrian Amenities	6.9 million
“Gateway Drive”	4.1 million
Additional Landscaping	4.0 million
Historic Anchorage Railroad Town	4,400,000
Fieldhouse	25,000,000
Transit Park & Ride, Accommodation Centers	1,750,000
Marine & Ship Repair Area	2,250,000
Parking Garages	15,500,000
Coastal Trail, Phase I	10,000,000
Library	39,000,000
(Less bond sale of up to \$10.2 million)	
TOTAL	\$162,950,000

Two public hearings will be held on proposed Phase II during January. After reviewing the comments from these hearings, proposed Phase II will be refined and presented to the legislature.

Anchorage's capital improvement budget includes much more than Project 80's. Prior to the 1980 legislative session our capital improvement budget averaged between \$10 and \$15 million dollars. Our capital improvement budget is now more than \$150 million dollars, which includes the approximately \$68 million for Project 80's. The rest of that budget includes money for roads, sewers, sidewalks, parks, and other needed infrastructure. We currently have over 36 funded capital improvement projects under design or construction.

Rather than add numerous public employees to absorb this phenomenal increase in state money for local capital projects, the Mayor directed that we make an intense effort to contract out to the private sector every



Mitch Gravo
Legislative Council to the Mayor,
Municipality of Anchorage

possible effort. Thus far we have been successful. Our Public Works Department will increase by only three positions next year, while we estimate that Project 80's alone will create 1200 private sector jobs next year

Literally hundreds of people deserve credit for the success of Project 80's. But no group deserves more credit than last year's Anchorage legislative delegation. The Mayor and those who support Project 80's look forward to working with this year's delegation to assure continued success for Project 80's and our municipality.

“Rural Projects”

For the purposes of my discussion I'd like to define “rural” for you. For this discussion, “rural” is everywhere in Alaska outside of Juneau, Anchorage, Fairbanks and Prudhoe Bay.

We all know some of the horror stories of misspent government funds, both state and federal, in rural Alaska. Empty schoolhouses, deteriorating equipment which was shipped to a village to fill a real or imagined need and then neglected. There are other stories. Those of us who travel extensively to rural parts of Alaska know that serious deficiencies exist. High energy costs, dangerous runways, phone systems that don't work, and a great deal of personal poverty. While we're talking about limiting state expenditures — and I believe that this is necessary — the question of how to face the unmet need in rural Alaska exists. The issue of dividing urban prosperity and rural poverty involves serious policy questions.

I hope that in thinking about limiting state expenditures our goal is to make that state spending more efficient and productive of investment and saving down the line.

It is not only the limited spending of our newfound wealth, but the wise spending of it that we're really after. Persons and institutions who are poverty-stricken or dependent upon the dole usually cannot afford to plan and budget wisely. They are condemned to hand-to-mouth existence. And this has been the position that Alaska has been in and specifically rural Alaska for many years. But things have changed. We can now afford to budget and plan wisely. Yet, we still seem to be trapped, or at least some of our bureaucrats and legislators are in the hand-to-mouth existence, the stop-gap habits and practices of the past.

If we look back it's easy to recognize that many of the programs and priorities we followed were developed and set not so much by Alaskans but by Washington, D.C., bureaucrats and congressmen. When highways were in vogue in Washington we got highways; when social programs were in season we got social programs; when rivers and harbors were the current rage we got rivers and harbors. And so it went. All sections of society would compete for the same dollars. Due to the political process these funds were often subject to unwise and/or inefficient use. We competed just like everyone else for the dollar on the rationale that anything was better than nothing. Should we still apply that to Juneau and to rural Alaska?

We have the resources to change our ways and we really need to do so. Looking back we have established some institutions and procedures to help us. One example is the Division of Policy and Planning Development. But too often the studies, recommendations and programs that these institutions or other agencies make sit on the shelf gathering dust. The rules are a little tough, for example, the requirement that we apply life cycle costing to state supported facilities has been on the books for about five years. The Department of Transportation has tried with some success to apply it in their programs, but that requirement is partially met only by the state and generally not met at all by local government.

Again, there are five year plans which the Department of Transportation and Public Facilities has which are still being developed, but the introduction of long range planning with attention paid to socio-economic benefits and costs as well as to the simple hardware is a relatively new process and some still feel uncomfortable with this. In the past the Legislature has been notoriously reluctant to fund planning and too often planning is the creation of technocrats and bureaucrats, experts who too frequently ignore the actual conditions of an area and are unsympathetic to the real desires of people in that area.

All of this is to really say that we have some of the tools already on hand and that if we use them to set priorities based on an honest and objective assessment of real needs and cost benefit them out, then we have a process that may work. It may reveal to us that some things we think to set aside we ought not.

I would also like to advance the premise that there are only a few things that government should actually do and that if government does them well then private individual development can follow as a matter of course — perhaps not immediately, but down the road.

Aside from the matters of public safety, health and education the two are mainly transportation and communications properly constructed and properly maintained. This can run the gamut from port facilities to a village D2 Cat which has enough spare parts to keep the runway clear in the wintertime.

The question is then: “What needs to be done.” Then come the concerns of “how much” and “in what



Judy Meidinger
Alaska Native Foundation
Member, Governor's Growth Policy Council

priority.” These are hard questions and in finding the answers there has to be a dominant philosophy — that every project proposed must be subjected to the most strenuous of economic tests. Will the actual economic and long term social or other benefits of this or that project be greater than its cost of construction and maintenance? It is not enough to have activity for activity's sake; development for development's sake. We must keep asking whether it will pay. We then come to the point where planning becomes a necessary luxury. Some do not like the work of planning; let's call it then needs assessment and cost benefits ratios. Without the hard headed application of economic testing is it a wise investment? Then there will be no limit on state spending, and we may all too quickly find ourselves back where we were for too long a time — dependent on other people's money, and thus their opinions, their decisions and their policies. And I submit that we can do better than that.

“Major State Funded Building Projects for the 80’s”

Good morning ladies and gentlemen. The Alaska Chapter of the Associated General Contractors of America is pleased to participate in this symposium to talk about limiting state spending. Since the construction industry will be largely dependent upon state spending for the next few years, some of you might be surprised to see us taking an active roll in this proceeding. Let me say from the outset that we are in favor of limiting state expenditures and we feel this can be accomplished without the strangulation of our industry.

This can be accomplished in more than one way. Probably the foremost objective would be to plan, design and award projects more efficiently. This means that the time between the concept of a capital improvement and its ultimate construction must be shortened substantially through improved efficiency. Improved efficiency means fewer administrators involved, particularly planners, and more productivity by those that remain.

The second area of concentration should involve more simplistic design, less exotic building materials and better insulating materials in buildings. When highways are constructed maintenance could be reduced considerably by placing asphalt in greater depths, perhaps as much as 6” where the state is now requiring 3” or less.

This represents only a few of the more obvious things that can be done which would result in a dollar saving. The resultant savings could in turn be diverted to other needed capital projects without exceeding reasonable spending limitations.

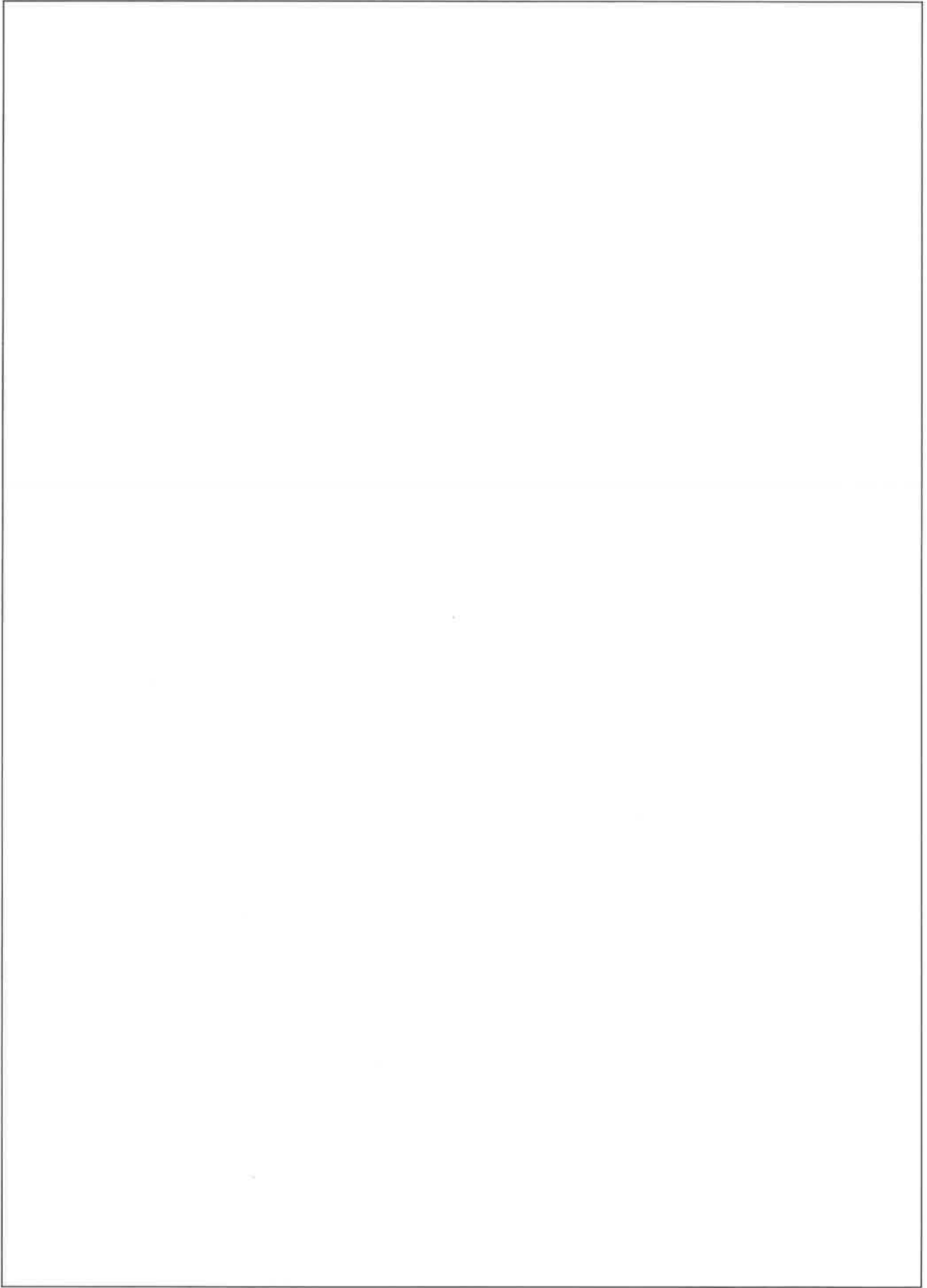
I feel that everyone here should tie the word “reasonable” to the word “limitation” as we approach the problem. Before the day is over I assume we will hear many proposals, and formulas, for arriving at a method of setting spending limits. When this occurs I urge you to consider two things.

First, the largest industry in America is the construction industry. Here in Alaska, with the exception of the state government, we are also the largest employer. Since the completion of the oil pipeline, with federal construction severely reduced, the gasline and Alpetco projects delayed we must look to the state of Alaska to keep our industry and its thousands of employees afloat and for the last two years the state quite simply has not come forward with the projects scheduled. 1979 was a poor year for our highway contractors and only fair for builders. 1980 was the reverse and the two years combined were far below DOT schedules and our expectations. I urge all of you to recognize the problems we face and when suggesting methods of curtailing spending that you look for savings within the administration of the departments of state government that are related to construction and support our proposal that as many worthwhile projects as possible go forward during this period of severe recession in our industry.

The second item I ask that you consider, is the time frame for imposing limitations on spending. It will probably be automatic to seek limitations on a 12 month calendar or fiscal year basis. I see no reason for this. The state could, as industry often does, overspend in one year and balance out over a period of two, three or more years. In other words there should be nothing magic about a 12 month period of time. If the need is there, address it.



Wally Parker
President, Alaska Chapter,
Associated General Contractors



"Susitna Power"

I am not going to be able to, in the time allotted, tell you very much about my "dam" subject today. But if I can arouse your interest, if I can tweak your curiosity, if I can make you want to know more about my subject, then I will have been successful.

Susitna Power Now is a non-profit organization composed of people all the way from Homer to Fairbanks. We represent industry and we represent the people involved. Probably some of our strongest members are people from the unions. We presently have 1,200 members. In six months we plan to have five to six thousand members. Lee Wareham from Fairbanks serves with me as Co-chairman. Most of the utilities involved throughout the service area that I am talking about are 100% behind our project.

A brief recap of what Susitna is: it is the latest proposal as prepared by the Corps of Engineers to build two dams on the Susitna River; the upstream dam which would be an earthfilled dam would be called Watana; downstream from it would be Devil's Canyon, a thick, high arc poured concrete structure. The reservoir at Watana will in essence act as the reservoir for both dams. Although they both have their own reservoir, Watana will be the one that fluctuates throughout the year. Each dam will produce about 750 megawatts of power a year. Rather than describe a megawatt, one dam will produce about the equivalency of the electricity presently being used in the railbelt area above Fairbanks all the way down through Homer, Kenai, Anchorage, Healy, Glennallen — through the biggest portion of our state.

Watana is projected at \$1.4 billion — Devil's Canyon at \$900 million, with the transmission and miscellaneous costs at \$400 million. A total projected cost of \$2.8 billion dollars. We believe it is important that we look at these dams and assume that possibly they may be built. Right now what is the Legislature doing? They have approved a \$30 million contract to Acres America who is doing a three year study to see whether or not the dam should be built. They are half way through it. In April, 1982 they have to make a report to the Legislature recommending whether or not to go ahead with the project. At the same time, the Governor's office has an alternative study going on that is funded at \$1.1 million with the same criteria to see if there is an alternative method of producing electricity instead of the Susitna Dam.

Now these studies are important. They should be done and they should be concluded and we should look at their conclusions. But in the meantime probably \$100,000.00 of expenditure by the Legislature could save millions in fees for electricity and hundreds of millions in construction costs if they will just take the lead time and do a couple of things.

One, determine the title to the real estate. Catalogue it. Part of it belongs to some of the Native village corporations. See what it is going to take to acquire a title.

Two, catalogue and list all the permits. See what is going to be involved towards getting the project underway, if the final decision is "go."

Three, put together a steering committee. Help work on the Federal Energy Regulatory Commission permit. Once the federal government knows we have the funding, half the time on the permit will be taken care of. Most importantly, Susitna Power Now wants to see the Legislature create a permanent power fund — a fund that would be used for building renewable energy resources throughout our state. Now, if they fund \$500 to \$600 million a year for the next ten years the State of Alaska would be energy independent from nonrenewable energy sources. Not just hydro, but tidal, wind, whatever is renewable — and we can do it.

Now, if you want to talk about a national image to the rest of our nation — if we can show them we are using our surplus dollars to make ourselves energy independent — we can then ship all our fossil fuels that we are burning now for electricity to the rest of the nation. I ask you to name something we could be more proud of or something that we should do and that is definitely attainable.

The Susitna Dam alone will save you the energy equivalent of 15 million barrels of oil each year. Seventy-five percent of the gas being produced in Cook Inlet today is being burned for fuel to make electricity. Ninety percent of the electricity in this city is made by burning natural gas. January 1, 1986 the contracts the city has with the gas people expire as far as their fixed cost go. I can guarantee we are going to see a tremendous increase in the cost of electricity if we don't do something.

To bring my point home, if we just took one third of next year's surplus in the state budget it would build



Robert Penney
Co-Chairman, Susitna Power Now
President,
Anchorage Chamber of Commerce

and pay for Watana Dam, outright. That one dam would supply all the present electrical needs to 75% of the state's population — all the way from Homer to Fairbanks.

I ask you to name a better use for surplus dollars from nonrenewable energy sources than to put them back into renewable. I want you to name a capital spending program that the state has ever done that makes money and could do so for 100 to 200 years. It is the most important occurrence, happening, projection, anything you want to name, to the future of the cities of Fairbanks and Anchorage. In my opinion, much more important even than the natural gas line.

How incredibly fortunate we are to have the most acceptable site for a hydro-electric project within this nation as on the Susitna. How incredibly fortunate we are to have the money to build it. How unfortunate we are that it's not being built today.

"To Bond or Not to Bond — Pro and Con"

The determination of whether to borrow for capital improvements in Alaska when the State enjoys a huge current surplus from non-recurring oil revenues has been addressed on a philosophical basis rather than a pragmatic basis. I would like to touch on the practical arguments in developing the pro and con positions.

In opposition to bonding, three general arguments are most frequently advanced. First, it makes no sense for the State to borrow money when it enjoys the current surplus and has no need to borrow money. We should not now encumber future generations with debt service when we can pay for capital improvements out of current cash.

Secondly, opponents of borrowing point to the "problem" the State faces with its huge surpluses. Retiring State debt and cash funding all capital improvements will take a healthy portion of the surplus out of the general fund. The trend of inflation in the country tells us that it will never be cheaper to build capital improvements than in the next several years.

Further, it is argued that immediate cash expenditure for capital improvements may help the State's position *vis a vis* Congress and other states without oil wealth. The State will be less exposed to Congressional reaction if oil dollars are translated into bricks and mortar and the overhanging surplus thereby reduced. Finally, the State will not be subject to any Congressional criticism because of borrowing at tax exempt rates and investing surplus cash at higher yield taxable rates. The State will not be adding the insult of loss to the Treasury of tax-exempt interest dollars to the injury of perceived excessive taxation of oil used by the entire country.

Many of the arguments to quit borrowing are based on the view that capital improvements are the best way to reduce the large State surplus. There are 4 principle ways of reducing the surplus:

- (1) Reduce oil company taxes;
- (2) Increase government services and expand the number of State employees;
- (3) Expand State loan programs; and
- (4) Increase capital improvements expenditures.

Since options (1) and (2) are not palatable the expansion of loan programs and increase of capital improvements remain. However, these expenditure options should not be chosen simply because we have an overhanging surplus which it is felt must be reduced or eliminated.

Translating the petro-dollar surplus into an extravagant capital improvement program could leave the State in an intolerable situation in 10 or 15 years. Operating costs on capital improvements will have to be paid in a period when North Slope revenues will be diminishing. These costs may be so large as to force closing of some of the projects built in this period of surplus. We have examples of "overbuilding" in the State already due to the ability to access oil wealth.

In the short term convention centers and symphony halls in remote communities will have far more external visibility in the rest of the country than an increased payment fund to cushion the impact of falling North Slope revenue. In the long term we may be in the untenable position of trying to operate and maintain a Rolls-Royce public infra-structure on a VW operating budget.

Continuing entry in the bond market with the improved bond ratings we now enjoy has the advantage of continuing exposure of the State's finances to the outside investment community.

Shutting off bond financing will internalize our expenditure process because outside bond investors will no longer have an interest in what we do. The national press and Congress will alone continue contact with our spending patterns.

This outside exposure to municipal bond markets and the rating services is a necessary aid to fiscal self-discipline required even in affluent times.

Normal governmental spending habits should not be abandoned because of the oil surplus. Alaska has carefully built its reputation over the last 20 years starting with a Baa rating (medium grade with speculative characteristics) to Aa (high grade) this year. This effort has resulted in excellent interest rates for State borrowing. If entry into the bond market is stopped this effort will be wasted. After the oil is gone the State will simply have to start all over again. Like any private person a state must establish credit. An applicant who has never



Eric Wohlforth
Former Commissioner of Revenue,
State of Alaska
Bond Attorney

borrowed is a poorer risk than one who has. The bond market is like all bankers. The devil it knows is preferred to the saint it doesn't know. We have the responsibility to leave a good credit rating to future generations.

Questions to Panel #2 by Media Panel and Audience*

Question to Eric Wohlforth: The Governor has talked about issuing stock in his Alaska, Inc. to residents of the state and periodically paying dividends so some of the money that is taken in from principally oil is distributed to the state's shareholders. One of the major criticisms of that is that many residents of the state would end up paying up to 50% of it or more to the federal government because of their high income tax brackets.

Would it be possible for the state, instead of issuing stock, to issue state bonds, tax free state bonds, and therefore the residents of the state would receive 100% of the distribution and the federal government would receive none of it? And secondly, what do you think the IRS's attitude towards that would be?

Eric Wohlforth: Not under our present state Constitution, it's not possible.

Question to Mitch Gravo: Some, including Assembly members, feel the Anchorage budget that was just passed won't be met unless relief funds from the state are received. What will happen to Project '80's if these relief funds aren't realized? Will we see an increase in property taxes instead of a relief from property taxes?

Mitch Gravo: Well, there are two times when the Legislature can meet our property tax issue. First, we're going to be asking for a supplemental appropriation as soon as the session begins. That action would not require any new legislation to deal with property taxes. All that would require is that the Legislature fund legislation already on the books that requires 100% funding. In other words, there's municipal assistance and the revenue sharing program which is currently under-funded. If the Legislature funds that at the level it's supposed to be funded at, there will be property tax relief by May.

The second thing we're going to ask for is a comprehensive re-doing of the whole property tax issue. That's going to be a more complicated, difficult task to accomplish. It's going to take us and the Legislature the entire session to deal with that issue. We don't expect that will be dealt with until mil levies are set the first of May.

Question to Dwayne Carlson: You said that ten years ago you could build double the project at half the cost. Hasn't this been brought about because of labor's demand to increase salaries and benefits, while at the same time labor's productivity and product quality has decreased?

Dwayne Carlson: That's a very broad statement on the decrease of productivity. Of course, on the labor's cost, I think it was interesting in the last Department of labor report that the labor cost in Alaska or the salaries haven't kept pace with inflation.

Question to Nancy Lee: Renewable energy also includes wood. In several eastern states, New England for example, power companies have found that wood is a source for generating power. How does the Center for the Environment feel about using wood as an export or as a source in Alaska for this purpose?

Nancy Lee: Well, it would depend on the reproductivity of the resource. In areas where it takes a long time for wood to regenerate, use of wood for electrical generation should be very carefully thought out. In areas where regeneration is fast I would see no problem at all. You know, it literally depends on where in the state you're talking about. In terms of export I think you're going to run into the same net energy question that we have in food and services here, the amount of energy that it takes to import, or conversely export, an energy resource or goods, or in this case an energy resource would mean that you may actually expend more getting the wood someplace else to use as an energy resource than you're actually going to get out of it when you get it here.

Question to Nancy Lee: Instead of fighting to stop the Susitna project why doesn't the environmental community work with the rest of Alaska to make it happen in an environmentally sound manner?

Nancy Lee: I am not opposed to Susitna. I don't know that the environmental community is opposed to Susitna. The problem that I see with Susitna is that you are putting all of your eggs in one basket then sitting in my house last night at 25 below feeling the cold come through that wall knowing that if there were an oil disruption or if I used electric heat and something happened to that power source . . . you'd have three quarters of the population in peril, as I see it. Why not look at how can we become most secure in the long term?

How can we gain confidence that our homes will protect us? That we can provide our own food? I think it's perfectly within the realm of Alaska to feed itself. And use wind farms, solar energy to the extent possible and then where it is appropriate to use large scale hydro-facilities use them. Hydro is a very appropriate renewal energy. However, I don't think it's appropriate to simply say, "We're going to take care of three quarters of the population in one swoop."

Question to Bob Penney: Mr. Penney, any comments?

Bob Penney: Thank you, I thought you'd never ask me. We never thought of that very much for this simple reason: when you talk about non-interruptible sources of electricity the most positive one in the nation is hydropower. Bonneville Dam has been running since 1937. It started at 2. mils per kilowatt. It's now charging

7 mils. The new source of power coming in Washington state from the nuclear is going to be 92 mils. Alaska has something like 15 hydro-electric projects in place. Two were built in 1915 in Juneau. They have been producing electricity without interruption since. A turbine was placed in Gold Creek in Juneau in 1886 and is still producing electricity today.

Question to Nancy Lee: Nancy, do you have an additional comment?

Nancy Lee: At least on a limited basis my friends who work in Juneau tell me that the hydro-electric power that is delivered in Juneau is interrupted continually on a short term basis.

Question to Bob Penney: Bob, in light of the fact that a hydroelectric project is labor and materials intensive and that Alaska probably has the highest priced labor in the world and some of the highest priced materials in the world, why do you think a hydro-project will be competitive with the alternative of Cook Inlet natural gas or coal, of which there are billions of tons available within just a short distance of that site? Especially in light of the fact that a natural gas fired power plant or a coal fired power plant could be done by private industry, versus the Susitna project which almost has to be done with government involvement . . . ?

Bob Penney: I thank you for asking me that question. Number one, there's one thing that's constant in fossil fuels and that is they increase in cost. Number two, there's one thing that's constant in hydro-electric projects: there is no increase in cost except for maintenance. They're capital intensive on the front end, but once they're built, they're built. The only thing that goes up from then on is the cost of maintenance. I made the example with Bonneville Dam, that started out with 2.7 mil kilowatt in 1937. They've raised it to 7 mils. Any other power source is almost coming on at 100 mils. The dam I talked about down in Juneau that was built in 1915 on Salmon Creek cost about \$1 million then. Today that would not even pay for the concrete — the cement that went into the dam.

The most important thing we have to remember about hydro-electric; we're not talking about five year, ten year, which is the length of the turbine you're talking about burning that gas — we're talking about a hundred plus years. If the state built the hydro-electric projects I'm talking about, forty years from now they could be funding a major portion of our state government. They are inflation-free and pollution-free and no fossil burning fuel anywhere will begin to compare with them.

Question to Judy Meidinger: It seems ironic we're trying to decide how to best manage billions of dollars that we'll be realizing in the future when the last few winters and most likely this winter villages are going to come dangerously close to running out of fuel in mid-winter. I just wonder how we can best meet this immediate problem with the funds we have now?

Judy Meidinger: Well, that was handled last winter by an emergency allocation from the state legislature. I predict that this will probably happen from time to time until the long term solutions are thought out and presented. At this point in time alternative energy needs to be looked at. The dependence on fossil fuels needs to be studied very carefully. How have we planned for rural Alaska? I submit that no planning was done, that the increase in dependency that the villages have been subjected to have been without much thought. Careful thought needs to be developed — it's like a drug addict, it has to be carefully withdrawn with alternatives put in place.

Question to Judy Meidinger: Are there any plans right now?

Judy Meidinger: I think individual villages are planning. On a statewide basis I would suggest that not much planning is going into this.

Question to Wally Parker: What does Alaska General Contractors recommend as far as generation of capital projects more rapidly, and at the same time holding state operating budgets down? Don't operating budgets design, manage and later operate these things you want to build?

Wally Parker: There are sufficient personnel and forces in the state government to handle with any degree of efficiency anything that we could build in the next two or three years. I'm sure of that.

Question to Bob Penney: Does Susitna Power Now advocate a study or assessment of the values of the Susitna River in terms of potential salmon or fish production above the dam site?

Bob Penney: There are anadromous fish or salmon that swim up past Portage Creek which is 40 miles below the Susitna. It's almost sterile in its fishery. Part of our proposal is we'd like to see a 100 million egg fish hatchery per year installed below the dam which will clear up the stream because of its placement. We'd like to see a fish hatchery installed that would increase commercial and sport fishing for the entire Cook Inlet area and be supported and funded from the operation of the dam.

Question to Judy Meidinger: Why don't the Native associations use some of their funds and profits from the Native Land Claims Settlement to improve and develop the community needs in the rural native villages?

Judy Meidinger: What you really have to look at is the mandate of the Claims Settlement Act when it set up corporations. What it did in the Act is say that those corporations would be profit-making corporations. That does not allow for social development of communities. That is not profitable.

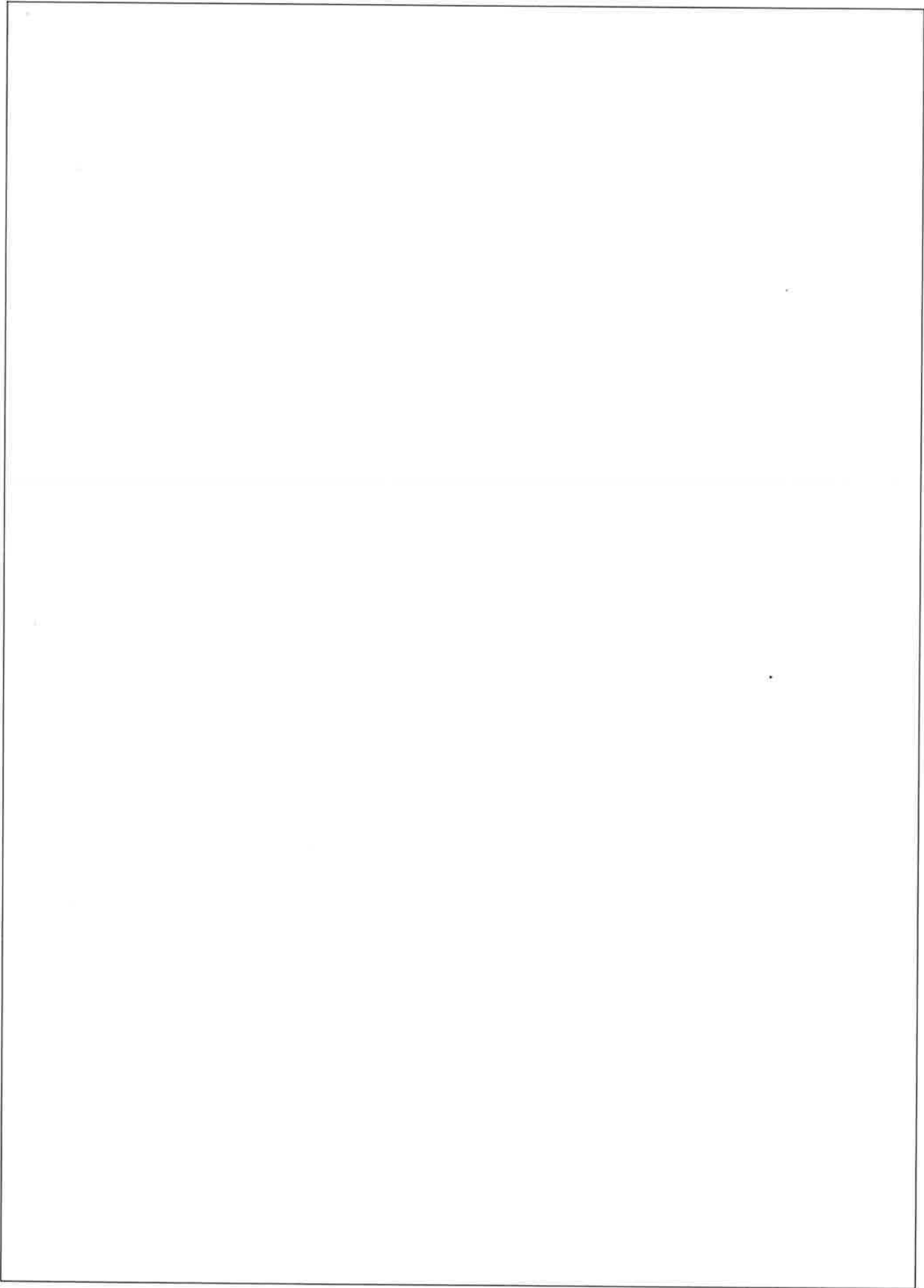
*Again, please note that this exchange is from an actual transcript of the meeting and participants have intentionally not been given an opportunity to edit the comments.

Governor Walter J. Hickel

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Luncheon Address

**Luncheon
Address**



“Alaska’s Capital Challenges”

I’m sure in listening to the other panelists they’ve covered many of the things I want to talk about. I think it really all boils down to whether we’re going to save or spend our money and how. But I think at this time in history Alaska has more opportunity than any other state in the Union and few nations have ever had. I can’t think of a school of thought that could possibly have been conceived years ago the possibilities we have to create a great culture here within this free society.

Previous civilizations have built their cultures, but they haven’t been free — the Egyptian pyramids, the Roman aqueducts, the China Wall. They were all paid for by the currency of human bondage. Human bondages, human exploitation, human life in slavery. Today our great opportunity springs from the fact that we have a replacement for the slavery and that surfdom which were really the capitals of the past. Today Alaska, for the first time in history, has the prospect of a plentiful supply of the modern concept of enlightened capitalism. Many of you know that in the 113 years that the American flag has flown over Alaska this territory has been oppressed by the lack of capital. And today in my real sense of the word Alaska has no capital surplus. You know, Alaska really hasn’t been blessed with old families who pass down wealth from generation to generation to provide the vital essentials of accumulated capital.

In the past no other state in the Union has really had to go begging like Alaska has for the necessary funds for nearly every project of necessity in the state of Alaska. Our assignment now is to catch up with the basic infrastructure which generations over time or government have put in place in the other 49 states. I think it’s going to take us at least the next 20 years just to catch up.

Alaska is really not rich, but now has that opportunity to catch up. Some people talk and fear the creation of a Detroit or a Pittsburgh or a Los Angeles area here — I don’t think that will happen. At least that’s not my vision of this state. I’ve always dreamed of building a culture. A culture of arts and education and enlightenment. But built on a foundation of free economic enterprise. Not just by large companies, but open so that the young can participate, and the old that we have can be improved upon and the new discovered.

I think more than anything it’s an attitude and now Alaska has this capital challenge. You can ask what does it mean to Alaska or to its cities? Many of our cities have a beautiful natural setting. I, for one, love Anchorage. It’s my home and I wouldn’t live anywhere else. But there are times when we look around when you just about have to have the guts to say it’s just a dirty little old town. And the same could be said for other cities and villages throughout Alaska. Many times they are ugly, they are in disrepair and they lack capital. Really all they need is imagination. That imagination is now possible for the first time because of our new capital muscle. I say let’s get out and sweep the streets and plant flowers and let’s make way for pedestrians with wide sidewalks; let’s beautify our roads and plant trees and bury our utility lines. Let’s bring our parks to the people so they can use them on an afternoon or an evening or a weekend. Not some distant, inaccessible place to set millions of acres apart, but something that can be used. Let’s literally let the sun shine in. Let’s be aware of our color and our architecture and let’s plan for a cold weather culture. Let’s tie our buildings together underground so we can use them to the greatest advantage in what is sometimes a difficult climate.

Let’s make our communities a great place to live in and work in, because they both must be together. Let’s put in a bus system, expand on what we have so we can carry people back and forth downtown. You know, there is a city in America that I have always watched, sort of a cold weather city, Minneapolis. I started watching it 25 or 30 years ago. And I like what they have done. Nicolette Avenue, for example, is something that should happen in Anchorage or Fairbanks.

Most of you know my business is basically hotels and shopping centers. But I’ll be the first one to say you can’t build a great city with just shopping centers. A city must have a heart. Unless you have a heart in a town you’ll end up with just a bunch of arms and legs and you’ll have nothing. Each of us with our own businesses and our own homes can all participate in making this a more beautiful country. In doing that you’ll attract the very thing that we are trying to do.

We need the leadership in government to accomplish for all what we cannot accomplish alone. Alaska has a lot of government structure. Maybe too much. Our creative challenge is not to eliminate them entirely, but to focus that structure, to create a society of free people anchored by a healthy private sector as well as our cities.



Governor Walter J. Hickel

Our transportation system in Alaska borders on the primitive. We have fewer roads than the smallest state in the Union. I don't envision a network of roads criss-crossing Alaska like they do in the midwest. We don't need that now and probably never will. I'm talking about linking up our people. I'm talking about reaching out so we can get to our resources, because a cold weather culture cannot be built on the arts alone. There has to be a steady, ongoing source of jobs, paychecks and revenues.

In Alaska that means tapping the incredible resources God put in this land and the waters along the coast.

Ours is a vast country. We must have an economical transportation system. You can dream all you want about the richness of this vast interior, but without the transportation system you are not going to get those resources to market. Water transportation is the cheapest transportation yet devised by man. The next is the iron wheel and a rail. I think the state should consider taking over the Alaska Railroad and extend it down to Canada, up in the Arctic, over to the Norton Sound and to the Seward Peninsula. What good is a mine of any size, large or small, to the old sourdough or to the new Native corporations unless you have a transportation system? But let's not forget that only one half the purpose of the transportation system is to move resources out. The other half is getting people in — people who want to see the country, want to find out what it's all about and explore it. I see Alaska as a land of backpackers and prospectors in the summertime and cross-country skiers in the winter. Those who think that I just want to see smoke stacks from Ketchikan to Kotzebue are mistaken.

The beauty of this land is a resource we all cherish and it's really one of the keys to our destiny. And yet our energy and our minerals must be found and used to help the nation and the needy of the world.

It's a cruel joke for Congress to proclaim they are deeding millions and millions of acres of land to the state and the Native community and then blocking a transportation system. In Alaska we're not basically a manufacturing country and I doubt we will ever be one — in the sense of Detroit or something like that. But there is a real opportunity for industry here in Alaska. It should be tailor made to the capital intensive character of a cold country. That means large scale units requiring highly paid but relatively few employees, such as liquification facilities, perhaps petrochemical, wood processing and certainly fishing. I think the North Pacific and the Alaska Continental Shelf can be the location of a fishing industry second to none on earth. But it has to be given the right leadership, the right care, the right concern and the right support. That is what we are talking about — creating an economic infrastructure.

You have heard other panelists talk about boat harbors, railroads, hydro-electric facilities, communications or expanded ferry systems. I agree with the panel before me, Alaska should be electrified. It should be electrified because of its climatical conditions. It should be electrified because electricity is clean and doesn't produce ice fog as hydrocarbons do. I agree with Bob Penney, let's build the Susitna project to electrify the railbelt. Let's build the project down at Kodiak and the hydro projects in Southeast. There are many others on the drawing board up and down the coast from Kaltag to Salmon Bay and on around the state. Some of these are not large projects and they don't have to be, but they're all powered by a renewable resource called water. I know of no other way to generate electricity that is as environmentally clean as water.

Now, the key to financing these projects is to pay for them out of the capital we have now, or at least part of that, rather than put us in debt in the future. Then, 50 years from now or whatever if we need capital for other things we can literally bond those projects. In other words, we can borrow money on those things we have already paid for. The beauty of this approach is that we won't have to pay for those bonds out of the tax revenues of the future. They will be paid by the revenue produced by the projects themselves. They are self-liquidating and the kind of things we could do. Believe me, as was mentioned before, a \$6 million investment today in a total of a number of hydro projects would be worth many times that in the future when we decide we need money for other capital projects.

People have asked, and rightfully so, why the government should be making these capital investments. The simple fact is that the government is in a position to do in Alaska what no private entity can do. You can have a private home set across the Inlet, but no homesteader can build a Knik Crossing. You can have a mining claim up in the Kobuk or somewhere else, but no single mine could build a railroad to make it productive.

I am not saying put government in business, but I'm saying government must do those things that no one else can possibly accomplish, but upon which our future and our culture rests.

There are many ways that government can handle these projects: a non-profit organization could be established; the panel talked about an elected board; a border transportation authority, or any kind of thing that the Legislature or the people might want, to build these large capital projects that are in the public interest — and do it somewhat like they did the satellite program. It was a collective endeavor of government and private enterprise.

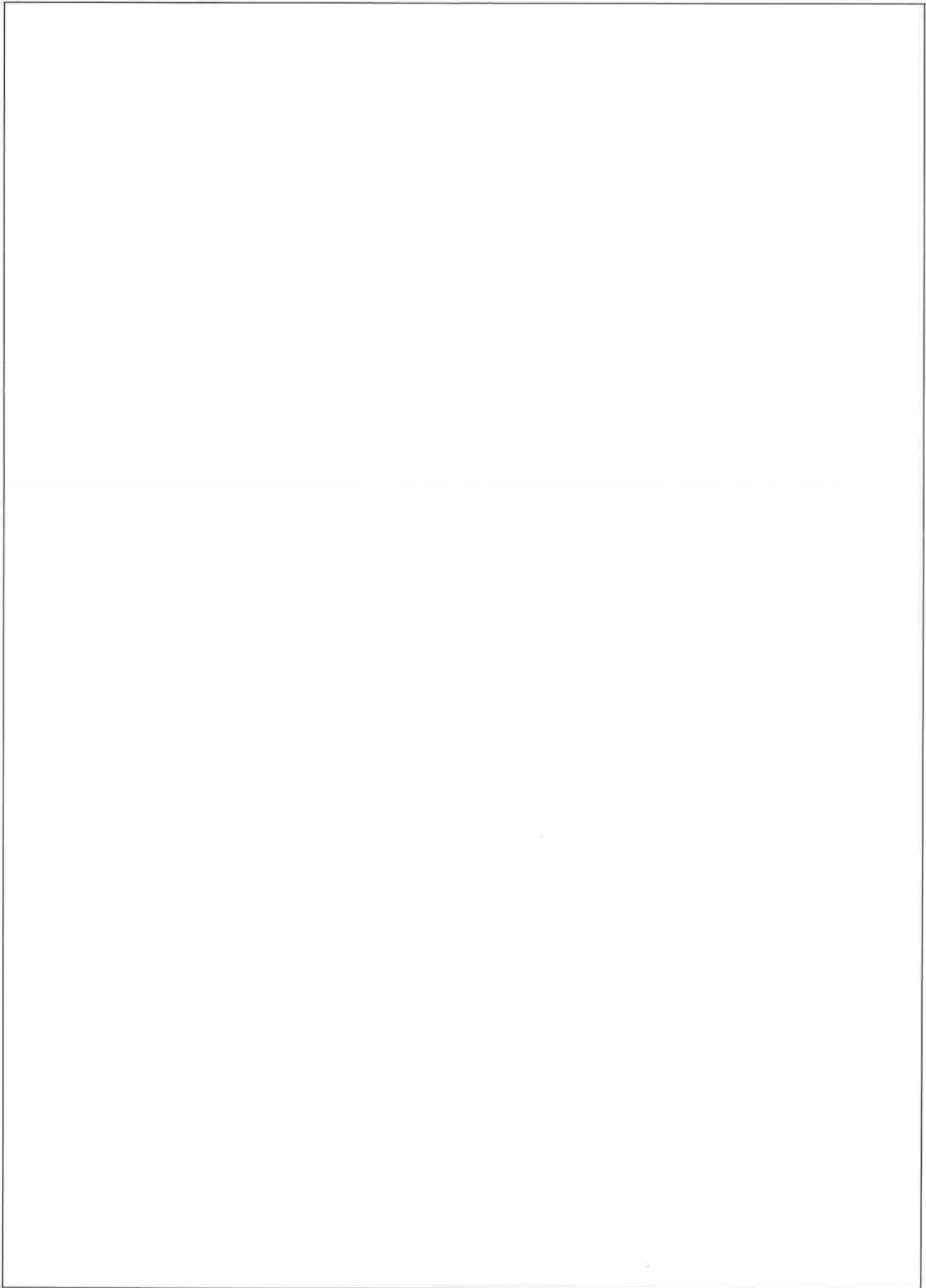
In Alaska, unlike Texas and Kansas, there is virtually no private land. In Texas and Kansas there are literally no public lands. Here government owns nearly all the land. Therefore, it has a legitimate role, in my opinion, to use some of those revenues in the most productive possible endeavors. Our greatest mistake would

be to waste the money on housekeeping or to distribute the capital which is now only beginning to accumulate. I think Governor Hammond means the right thing when he says the dollars belong to all the people. But it should belong to all of us in the sense of an accumulated endeavor rather than just a Christmastime bonus.

To distribute this income would be like a farmer where I came from back in the Depression eating his seed potatoes or selling his seed wheat. It could be tempting so you would have cash at the moment, but there would be nothing left to plant in the spring and there would be no harvest in the fall.

In this great town and many towns like it throughout Alaska you see thousands of people waiting in line for food stamps. I think with the right kind of guidance and a capital intensive program we could have a thousand people lining up just for the opportunity. Sending each one of us a check isn't going to solve that problem. We must put those accumulated funds to work creating jobs, creating an infrastructure and really creating that culture that I was talking about. There really is a moral issue here. Forgiveness of taxes is a different story because that is money that you've already earned, but the distribution of unearned money from the government breaks down the character of a pioneering people.

I see the challenge and the opportunity of our state to use our capital to sort of pull the whole state together rather than to pull it apart. Let's think of Alaska as a very unique piece of real estate, something like a nation of the world, and yet a part of the great heritage which we call America. As we see ourselves, that's the way we shall be. This is a great country. It will not reach its destiny with small goals, small thinking or small dreams. Rather than working separately in our own individual efforts or fearing one another, let's collectively tackle these transportation ideas, the challenge of electrifying the state, the construction of boat harbors and ports for world trade and our fishermen, and building a cold weather culture that will help us attain that potential. I think that's our challenge and I say let's get on with it.

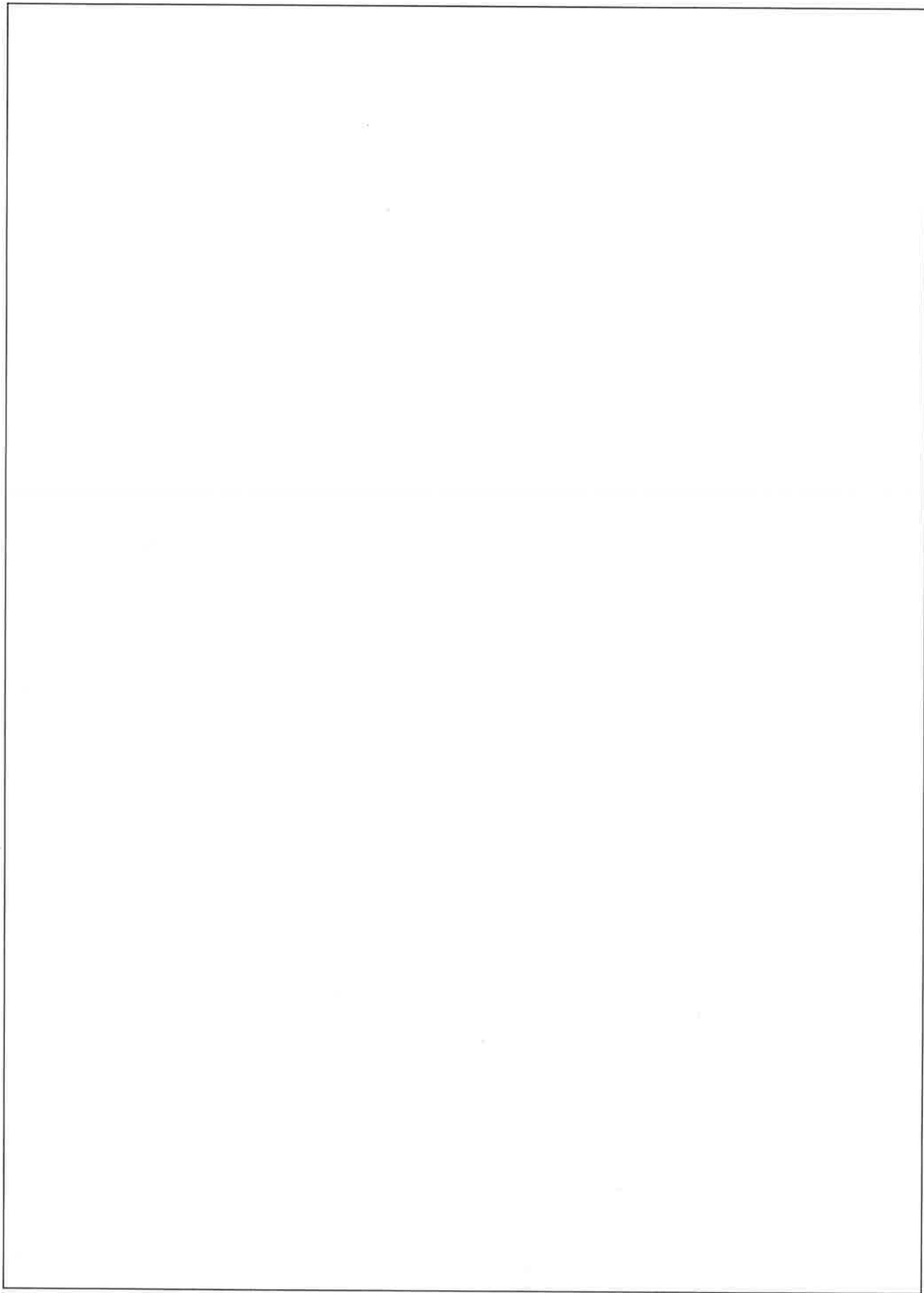


“What Alaska’s Spending Policy Should Be During the 80’s”



PANEL #3

Each distinguished member of this panel gave a five minute presentation highlighting what he perceived Alaska’s spending policy should be during this decade. Questions from the audience and Media Panel followed, often punctuated by lively debate among the panel members.



“What Alaska’s Government Spending Policy Should be During the 80’s”

This is, of course, an exciting topic, “What Alaska’s government spending policy should be.” I am tempted to say that in a way the answer is a short one. It is that we should spend enough so that we have the Alaska we want. Some would say spend only a small amount so we **keep** the Alaska that we want. Others would say spend enough so that we **build** the Alaska that we want. But if we look at it in one sense what we are really talking about is how we’re going to achieve a decade or two or three from now — the Alaska that all of us desire.

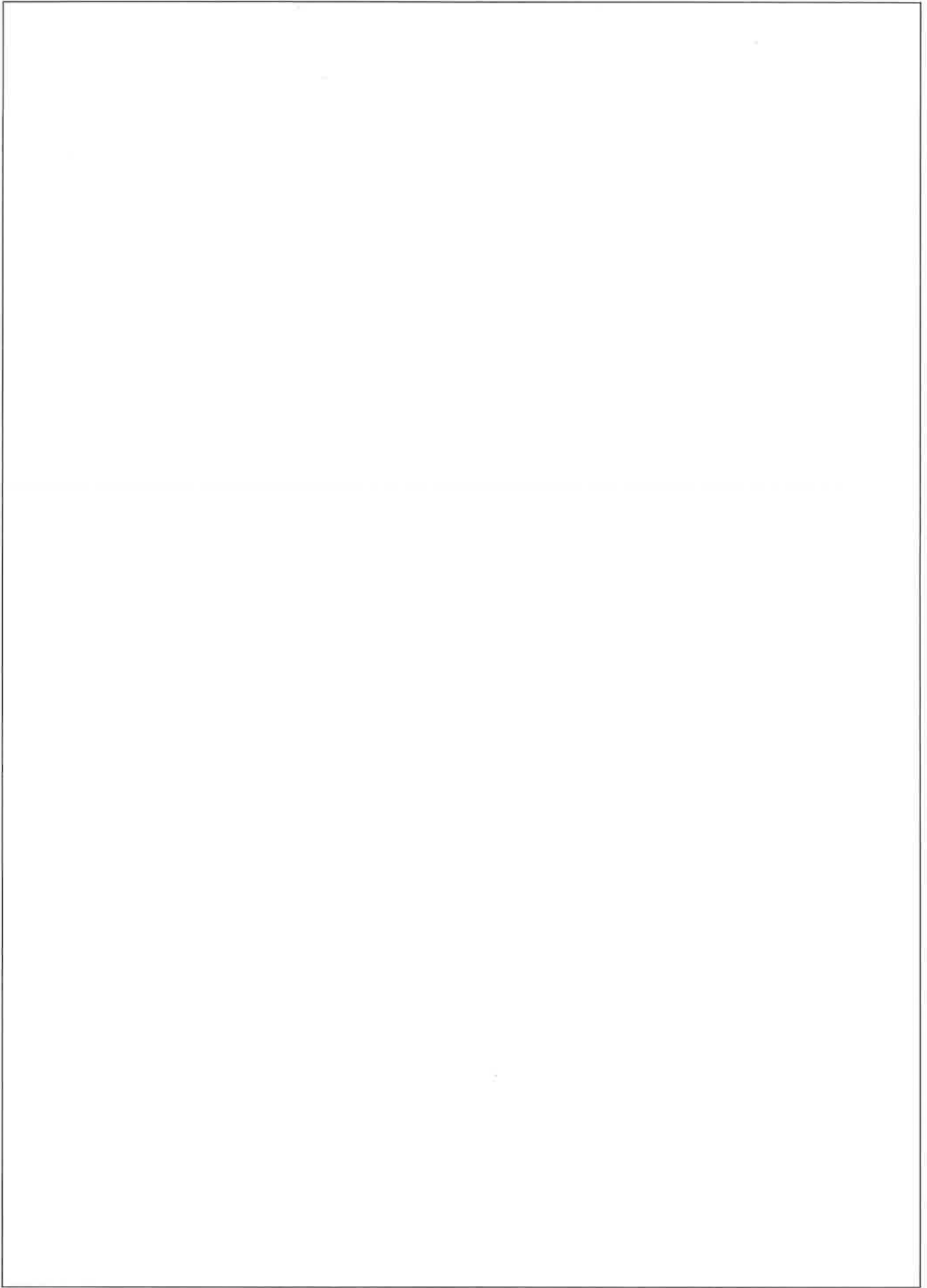
Ken Showalter mentioned this morning the reason we’re here to discuss this topic. He said that it was basically the \$175 billion that the state would receive in the next two decades and of course that wealth is coming from Prudhoe Bay. The real question that we have with regard to our future is what is going to happen to the oil at Prudhoe Bay. I think that it is sometimes easy to forget that the policies that brought us to this point were not unanimously agreed upon even by all Alaskans. They were often very controversial. As a matter of fact, if Alaska’s policy towards oil development was today the same as it was in 1969 when Prudhoe Bay was discovered we wouldn’t be talking, as Ken mentioned, about \$175 billion, we would probably be talking about less than \$50 billion that the state would receive, according to his figures.

But whether it is \$50 or \$175 billion it points out the fact that it’s a different Alaska than it was 10 years ago and it means that we need a different policy towards spending than we have had in the past. Traditionally, there have been two tests with regard to whether or not money is going to be spent by government. One, are you willing to raise the additional revenue to justify that project? And if you’re not willing to do that — if the majority of the people are not — then that project is not going to be done. A second way is, will you exclude other projects in order to have this one? I would say that neither of those standards will serve Alaska in the decades to come — whether it’s \$50 or \$175 billion that we are talking about.

If it is true that the decade of the 70’s was the question of raising the money so that Alaska would turn out to be the place we want, I think the question for the decade of the ’80’s is can we agree on what we want done? I would suggest to you today that so far the answer in the first year of this decade is a resounding “no”. There is no agreement in Alaska on what we want. Alaskans voted to move the capital in 1974. In 1978, in my opinion, they voted for practical purposes to repeal that. They voted in 1976 to establish a Permanent Fund to save at least a portion of the oil wealth. The Legislature in 1980 voted, I think, in direct opposition to the intent of the Permanent Fund to disperse money directly to Alaskans instead of to saving it. There was considerable talk in the mid-’70’s about social programs. There’s a tremendous amount of talk today about capital projects. We have to assume that Alaska will grow. Certainly if you look at the last decade and it is any indication as to what is going to happen, then disagreement not harmony will be the norm. If you view a government budget as the money that people are willing to spend together then I think you have to ask what is it that we want? We know some of the ways of going about it, but what do we want? If there is going to be a substantial amount of economic development, whether it is manufacturing or resource extraction, what in terms of the social cost is government willing to pay? I don’t think there is any easy answer. The other situations in recent history of the world where this type of situation has occurred have usually been dictatorships. In the Middle East countries there is a vast amount of wealth at the disposal of a few people. The challenge we have is how a democracy is going to handle that wealth. I would suggest to you today that there is no easy answer for that. Those who think you can solve that question by a formula or a constitutional amendment or a committee will find that that will simply never work here. The only way that is going to be addressed — and this challenge is going to be met — is through the awareness of Alaskans. If you want an easy answer to that question I don’t think Alaska’s for you, but if you’ll accept the challenge of one of the most exciting places to be in the next 20 years I’d say welcome aboard.



Chancy Croft
Former State Legislator



“What Alaska’s Government Spending Policy Should be During the ’80’s”

We have heard a lot of discussion as to how we might spend the money. I agree with most of it. But it seems to me that we have got to look at the total problem which is the amount of money we have. If we talk about limiting the operational expenditures, that may take care of 25% of our money. If we talk about investment fund that may take care of 25% of our money. I tend to agree with Chancy, the percentages really aren’t going to take care of the problem.

What are we going to do with all the money we have? We can do everything that everyone up here suggested and still have money left. I think that what we’re going to do in the next 10 years depends a lot on the attitude. Let me give you a few ideas of attitudes — just little short one-liners. “Don’t tax unless money is needed.” “If it ain’t broke, don’t fix it.” “Equal opportunity for all, not equal benefit for all.” “Provide jobs, not welfare.” “Keep the work ethic.” — that is going to be very difficult to do with the kind of money we have. “Review federal support programs and if they’re not needed or if there are strings attached turn them down.” “Run the state the way it should be run and if the Feds threaten to cut you off say, ‘Cut us off.’”

I think we should have a goal of fewer state employees. The real goal is how to use our money to benefit all of us in such a way as not to destroy our freedom. That is the real challenge.

Government really should provide the normal government services and that includes all the capital projects we’ve talked about. We have to determine whether or not government should have a surplus or we may lose our freedom the way that we know it in Alaska.

Someone had previously mentioned that government already has all the land, they have all the money, we get to the point that we have to bow to government to get our dole, to exist. Government will absolutely control us and I don’t think any of us want that. One economist from the Hoover Institute who was here a month or so ago said we should burn our money to maintain our system. I don’t think we have to go so far as to burn it. I think we have some great opportunities with it. But I think 10 years from today some of us may say that we should have burned it.. In the next 10 years, we should not tax if we don’t need it. We should abolish most of our personal taxes. One way of not having too much money is to not take it in. The special oil and gas income tax should be repealed.

I think our severance taxes should be put at a level commensurate with what other states have. We are part of the nation and we should not be charging more, we should not be inviting Iowa to increase their tax on corn or Idaho their potatoes and so forth.

I think, obviously, that we should not have any debt. We should pay off the state debt, pay for all our new capital improvements with cash and then pay off local government. To me that is the way to reduce local government taxes, not by directly supplanting real property taxes. Again, always with the goal of helping the people but maintaining people control. If, for example, we set up endowments, as has been suggested, that will feed local government or endowments that will feed the local schools you give up a great measure of control over your local government. They have money coming in regardless of what the people say or whom they elect. A tremendous amount of control is lost.

Concerning capital improvements, Mr. Hickel referred to many of them stating we should build. I certainly agree with that. One way of distributing money to people is by giving them low cost power, by giving them good transportation facilities, and certainly not to give money directly. I am surprised that no one today has talked very much about giving out dividends. At least in this group dividends are not a popular issue, although I think they are with a lot of people in the state. We need to build for local government, not just for state, but we ought to build for local government whatever capital improvements they want and are willing to maintain once we build them. And pay cash for them.

Again, with this type of a program we can maintain our work ethic, I think that’s extremely important. After we do all the things which I have mentioned and all the things that practically everyone else has mentioned, other than these endowment funds, we still have money left over. Then you have got to decide what you are going to do with what’s left over. Are you going to allow the state to have a surplus? Now, of course, this is



Tom Fink
President, Resource Development
Council for Alaska, Inc.
Former State Legislator

where some people say we should give a dividend to people or take our royalty interests on the North Slope and divide it up among 400,000 people. You know, the money is so huge that if we start dividing it up this next year the Legislature could pass a billion and a half dollar operational budget and they could still pay everybody in the state \$11,000 in cash. For a family of four that is \$44,000. Why work? That is the big fear that I have. The money gives us a great opportunity, but it also has a very down side.

So, in order for us not to have money, what's the next fall back position — if we're not going to give it to the people? Would you consider reducing the tax on our resources to the point that we don't have a surplus? I don't think that's politically acceptable today.

Another option that I throw out that is never well accepted is to apply it to the National Debt. There's no exception here either.

We have a tremendous opportunity — and I don't think there are any right answers except that we must not destroy our freedom in the use of that money. And, in my opinion, if you allow government to have a surplus on a permanent basis you will destroy our freedom.

“What Alaska’s Government Spending Policy Should Be During the ’80’s”

One of the difficulties, of serving on such a distinguished panel, is that most of the statements have already been made. But maybe from my perspective we may shed a little light on a slightly different approach.

Let me give you my quick, thumbnail assessment of Alaska as we stand today. We still have a very small population centered in a very small sliver of this great land mass of ours, which means that we still have a very small utilization and a demand on many of the resources that others have a large utilization for and a greater demand. Our managerial expertise is limited, our experience with wealth is really limited, the cost of many of our basic necessities such as transportation, food and fuel is disproportionately high in many portions of our state. We are blessed and challenged by a large, trainable and employable work force that is presently under-utilized. From a resource perspective we find that we are rich in resource potential. I have been hearing this for 50 years — “we’re rich in potential” — hard rock mining, for example. We are strong in supply and markets for oil and gas, timber and fisheries, which has resulted in this challenge that we are all faced with in the ’80’s and the ’90’s. But as a result of Alaska’s call, as I just mentioned, Alaska is being faced with some very exciting and profound policy questions in the 1980’s.

How do we resolve the current “Catch 22” that we’ve been faced with for some time? We are exporting our resources and in too many instances we are importing the manpower required to export these resources. And all the time we have a group here watching this double whammy that is as large and as trainable, right now as the currently unemployed work force. I do want to give credit to several companies who have taken a very enlightened approach of late to correct that problem. We are seeing some phenomenal growth in this area thanks, by and large, to some private enterprise companies.

As we approach the ’80’s the long term significant impacts of the Alaska Native Claims Settlement Act will become much more evident. With the large number of privately owned acres and the financial resources that the regional and village corporations have, there exists a great opportunity to diversify both the types of businesses and their locations which will have a positive impact on all Alaskans.

Basically, what I’m trying to say is that we are going to see some shifts and some movements of some of the business locations. But that is still going to have a very positive impact in my view on the locale that we have now. All we are going to be doing is spreading the wealth that we enjoy in the state around a bit to other regions of the state. That spreading of the wealth is going to result in more money turnover and more money staying in Alaska longer prior to making its exit down to Seattle First or Citibank or wherever.

Secondly, we’re going to see as unique to Alaska — and as properly done as can be — a model for regional growth throughout the country or throughout the world. We are going to see that we can have both human development and resource development — and also the capital improvement project development that we seek in the ’80’s.

With the restrictive policies being developed on federal and state lands and with the untapped resource potential on Native acreage, we see the long term diversifications of Alaska’s economy and her continued growth resting with regional and village lands. In my own corporation, Doyon, Ltd. — a corporation of which I’m a shareholder — is moving to become a major resource developer. In regard to that, since 1975 our corporation alone has generated \$86 million into the ground just on Doyon corporate land. That figure becomes more significant when we see what is happening to other resource developers or hard rock miners in the state. Sad to say, through the many policies all of us are enunciating, many of them are leaving. Many of the few that are resident, domestic and residual, of course, are going to be the village and regional lands.

Let’s quickly examine what Alaska’s government spending policy should be during the 1980’s to spur this type of activity. First of all, we need to develop policies that will be supportive of this resource potential. Government support probably will and should be required to develop the necessary infrastructure to promote these developments, whether they are roads, transportation, rail or highway lines. The only thought here that I would add is let’s do it with a lot of planning and let’s do it with a lot of involvement of the local communities or the local areas. Transportation development *per se* in rural Alaska has not always been the most sensitive



Morris Thompson
Past President, Alaska Federation of Natives
Former Commissioner,
Bureau of Indian Affairs

and has not ended up with the best result for all of us. We see assistance in developing some of the support communities. We see assistance in communications and hopefully some industrial financing plans to spur these large scale developments.

Secondly, we need a constant long term stable policy relating to these developments. We have got to get away from the pendulum swinging and policy making that's going on in Alaska.

Third, we need to develop an energy policy that will lower cost of fuel to all of us. We need to review and develop an action plan not a training program, but an action plan, to better utilize Alaska's work force. And finally we have got to start communicating to our sister states in the Lower 48 that yes, Alaska is wealthy, however we have a long way to go. I am becoming increasingly concerned about some of the editorials I read in our sister states about Alaska becoming the spoiled child, the blue eyed Arabs. That needs to be addressed in the 1980's.

“What Alaska’s Government Spending Policy Should Be During the 80’s”

Alaska spends more per capita on government services than does any other state. There are many reasons why this is true: small population spread over an immense area, high cost of goods, services, construction, lack of economies of scale, high cost of service delivery in isolated areas and under extreme climatic conditions, etc. However, Alaska’s extraordinary spending pattern is only partially explained by the need for many public services and their costs; a substantial contributing factor is our supply of revenue, both its size and its source.

The dimension of Alaska’s oil wealth is staggering. The Department of Revenue’s official revenue estimate for FY82 is \$4.9 billion. We are projecting that the state will receive at least 30 billion dollars from oil revenues over the next five years. After the Alaska income tax law was repealed, our dependence on oil wealth as a source of state revenue jumped to 90%. Nine out of every ten dollars that government spends comes from oil. In every political environment, expenditures rise to meet revenues. But that phenomenon is even more dramatic when the revenues do not come from the people themselves. Residents of Alaska can demand, obtain and enjoy a wide variety of state-sponsored benefits for which they pay nothing. Under these conditions, I am convinced that regardless of how much money the state receives, there will be more demand than supply.

These factors have led Governor Hammond to the conclusion that a constitutionally mandated expenditure limit is necessary to restrain our appetite for additional free goods and services from government.

The limit, to be truly effective, must apply to all types of expenditures, operating and capital. However, recognizing that there is a perceived public demand for additional basic infrastructure (docks, roads, grain elevators, gymnasiums), the Governor will propose that the expenditure ceiling can be lifted for capital projects by a vote of the people. The only other exception, for natural disasters like earthquakes, can be invoked by 2/3 vote of the Legislature. The limit will be a simple formula: a percentage increase based on inflation (based on Anchorage CPI) and population (based on a long-term population projection), and a base-year of fiscal year 1982.

This proposal differs from the expenditure limit proposed by the Chamber of Commerce and by Commonwealth North in two significant ways. The first is that this proposal would limit all state spending not just operating. The justification for this approach is simple: a limit which does not include all expenditures is no limit at all. The Legislature frustrated by the restraint imposed on one type of expenditure will simply channel the demand to another type of expenditure: capital. Incidentally, very few capital projects do not require continuing operating expenditures. Schools need heat, light, teachers and janitors. Roads need to be paved, plowed and re-surfaced. A limit which would not deal with capital projects such as those which were funded last year in House Bill 60 (such as dog mushing ground for Fairbanks, an arctic ski jump for Anchorage, theater equipment for the Alaska Repertory Theater, a lifesaving facility for Nome) would seriously delude the public into thinking that government spending was in any effective manner limited. If the people want these additional capital projects, beyond the limit, they can vote for them, which is what the Governor proposes to let them do.

The second major difference is the formula for increase. Instead of a percentage based on personal income, the Governor is proposing an adjustment based on population and inflation. There are three reasons:

1. Allowing state spending to change with personal income only makes sense when state revenues are a function of activity in the private sector. In Alaska, it is the reverse: Activity in the private sector is a function of state spending.

2. Tying the limit to personal income would have a counter-counter cyclical effect. If the economy had a bad year (low personal income), the state would spend less (thereby exacerbating the situation). If the economy was booming (high personal income), the state could spend more (thereby superheating the economy and adding to the high cost of living through inflation).

3. Increases in personal income fluctuate irradically: in 1972 + 9%, in 1974 + 21%, in 1975 + 44%, in 1977 + 2%, in 1979 + 4%. State expenditures would jump up and down with these numbers and create some



Frances Ulmer
Director, State Division of Policy
Development and Planning

peculiar and, I believe, unintended allocation levels.

A formula for population and inflation adjustment exhibits these difficulties to a much lesser extent. It will produce smaller year-to-year fluctuations and it reflects two critical components which do legitimately influence state spending: more people (population) and higher costs (inflation).

The Governor is considering a provision which would permit additional budget increases under the condition that additional contributions are made to the Permanent Fund. Some percentage of the increased income generated by the additional contribution would be available for spending. This provision reflects our concern about source of revenues to fund government: if the sources are predictably recurrent, additional spending may be justified (or if not justified, at least less risky as a funding source, than is oil, which is predictably non-recurrent, and at some point in the foreseeable future, declining).

In closing, let me emphasize two things.

1. There is no limit to the number of good ideas about how to spend money, particularly if it's not coming out of your pocket.

This is the fourth year that I've been a member of the Budget Review Committee, which reviews all the agencies' budget requests and assists the Governor in putting together the budget which he introduces to the Legislature. I have seen literally billions of dollars worth of good ideas and the vast majority were relatively reasonable. On an individual basis, it was tempting to agree to fund many of the requests, but the grand total was outrageous. This year the agencies' capital budget requests alone totaled \$750 million. That is more than the entire general fund appropriated budget in 1977 (\$735 million).

As things stand now, it is hard for the administration or legislators to persuade citizens that the state should not do everything for everyone. It is, therefore, essential to somehow give all Alaskans a direct stake in and understanding of the long-term financial future of the state. I believe that the Permanent Fund Dividend Program can and will (if the court allow) serve this purpose. There will be a direct personal cost to each individual which will result from demanding and receiving unlimited government services, facilities, local grants, and tax reductions. That cost will be a lower Permanent Fund Dividend check.

2. Oil revenues may last a long time but they won't last forever; and when they decline substantially, nothing else will generate enough revenue to replace the sheer size of that revenue contribution.

You may not agree with this statement, and indeed, it may be wrong. Providence may have provided an infinite and inexhaustible supply of mineral resources which will allow us to live forever as we do now, spending without pain. However, I am a conservative, and I believe that a wise government spending policy for the 80's is based on what we **know** about the future, not on what we **hope** for the future. What we know is that Prudhoe Bay revenues reach their peak in 1990 (at a projected 13 billion) and then decline as they rose (in 2004 they will be what they are this year; you can bet that our expenditures will be more). We need to plan for the next two decades on the assumption that some of these revenues should be saved and some spent; that some of these revenues should be invested in commercial, industrial and resource development ventures which will expand our economy; and that some should be returned to Alaskan residents.

I refer to this as the four **S** plan:

SAVE

(Permanent Fund and Rainy Day Fund)

SPEND

(general operating and capital budgets-government goods, services and facilities)

SPECULATE

(investments like Delta Agriculture, the Renewable Resources Corporation
business loans, bottomfish development)

SHARE

(personal income tax repeal, Permanent Fund Dividends, Royalty oil premium distribution)

The correct balance among these four S's rests in the hands of the Legislature which must sort out the competing needs and demands in order to design a balanced portfolio for current as well as future Alaskans. That is the challenge of the '80's.

Questions to Panel #3 by Audience and Media Representatives*

Question to Morris Thompson: You mentioned that you think it's important that the state spend some money or get some kind of program together to improve the image of Alaska outside the state. How can this be done?

Morris Thompson: In my view, it's a very high cost, but it is becoming increasingly more urgent. Just the other day I read a series of editorials from around the country that were alarming, both for their misinformation and for their very negative biases regarding Alaska. I think it emanated out of our battle on D-2. People in the Lower 48 are saying the following things: "Now, that we've given Alaska 103 million acres: now that we've given 40 million acres to their native population, they've turned around and are giving themselves all kinds of tax relief at our expense, with our oil." These are some of the statements that have been made in the Lower 48. All of which are rather unfortunate because they're not true, first of all. So, while it is a high cost I think we need to do a better job of creating a more proper image. We need to do a better job of communicating — that's a responsibility of all of us — communicating the factual situation in Alaska. While it would be expensive I think in the long term it's absolutely necessary.

Fran mentioned one other thing, that legislatively there is a movement in Congress to repeal some of the very favorable positions Alaska has enjoyed. I think if we look at the D-2 bill, the 90/10 provision in the NPR 4 has been restricted, they have been lowered. We come below most states now. We're not going to share 90/10 out of NPRA if we discover anything there. I think that it's no longer something that others are thinking about, direct actions are being taken against the state.

What are we going to tell them? That we're not wealthy? The fact of the matter is we have a phenomenal amount of wealth. Trying to hide that fact, it seems to me, only furthers the image problem you've got.

I think that what the United States is going to do is to react not to our image, but to our substance. If we have some notion that there is going to be \$150 to \$200 billion taken out of Alaska and it's going to be easy or somebody else isn't going to try to get their hands on it, it's silliness. We might as well recognize that we have a great opportunity. But trying to tell somebody that it's not wealth that we have is never going to work. The real thing is what we do with it. Whether we make out of it something that we're proud of and the rest of the United States thinks is worthwhile. If we do that, that's going to do a whole lot more than any media program that anybody ever envisioned.

Question to Fran Ulmer: What facts do you have that \$780 million is more than the state can afford to spend on capital improvement projects?

Fran Ulmer: Well, if you wanted to do just a quick calculation on the back of your notebook, the state is projecting that our revenues for '82 will be \$4.9 billion. That's the Department of Revenue's official estimate. Approximately \$1.8 billion is being talked about for an appropriation to the Permanent Fund. Oral Freeman and others have been proposing that and I think it's probably going to happen. It's almost \$2 billion for our combined operating and capital budgets for next year if you assume some relatively conservative percentages about change over last year. So, that brings you up to \$4.3 billion. And then there's about \$3 billion left which I would say is probably going to have to go into either the rainy day escrow account, which the Legislature did last year, which basically just allows you to fund your normal cash flow of government in case of a pipeline shut down. Or it might go into an escrow account for the oil income tax issue. That litigation is basically so serious that we are already in debt to the oil companies \$1.5 billion if we lose that law suit today. And, the litigation won't be completed for another couple of years. By the time it's over it's estimated that our liability in that oil suit — if we lose — will be about \$7 billion. I expect the Legislature will take the conservative act of putting some money into an escrow. So, right there, that's your grand total of \$4.9 billion. It's easy to spend money.

Reply by Tom Fink: Obviously we have the money. The State Administration has in mind dedicating the money to other purposes like Permanent Funds. This \$3 billion cushion for the law suit: the easy way to solve that is to repeal the tax, then you don't have to worry about that.

Reply by Fran Ulmer: You also don't have to worry about how to spend the money.

Reply by Tom Fink: Without the oil tax we still have billions of dollars. If we chose to, we could afford a \$2 billion a year capital improvement program without any problem at all. From a cash flow position.

Question to Chancy Croft: You stated that a constitutional limit on the operational budget will not work. Do you see it as a partial solution or are you totally against the idea?

Chancy Croft: I'm against the idea. I don't think that any arbitrary determination of what the state spending should be is good policy as far as government is concerned. You have to recognize that there are a lot of unique factors about Alaska and there's going to be a lot of changes that take place. Trying to decide that we now know how much money it's going to take to produce what we want — not only in '81 but in '85 and '90 and the year 2000 — seems to me to be presumptuous. We're hard put between Fran and Tom to decide how

much we're going to have in 1982. While I think the notion that you ought to get the most for the money you spend is correct, trying to say that there's some arbitrary formula by which you can do it isn't feasible.

Question to Morris Thompson: Will you please comment on native perception of desirability of a rail net. For example, Nenana and the tapping of the Copper River and the Kobuk copper area?

Morris Thompson: I suspect that they would be receptive. I know that there is some preliminary discussion going on. Doyon within our own region, for example, we feel we are perhaps a year and a half away from making a "go" decision on a major asbestos prospect. We recognize that if we're going to move that hard rock resource it's going to require either a railroad or a major upgrading of the existing road system. I think the native community's feeling is that when it's needed it would be in our interest to support it.

There isn't an overall blanket statement that we are opposed unilaterally to transportation. It needs to be well thought out, well planned and serve a purpose and a function.

Question to Fran Ulmer: Under your four "S" plan for expenditure of state money, the Spend, Save, Speculate or Share options, would Tom Fink's proposal to have Alaska pay off a portion of the National Debt qualify under your Share provision? And do you think it's politically feasible given the state legislature we have?

Fran Ulmer: I am not an enthusiastic supporter of that proposal for a couple of reasons. The first is, the amount of dollars we're talking about are just not in the same league. Just the interest payments alone on the National Debt next year are \$160 billion. Now, the entire amount of surplus that has been talked about today is roughly that same amount. So, it doesn't seem to me that you could do anything except throw a drop of sand into the entire ocean. I don't think that it would have much impact and I don't think that the amount that we're talking about makes any sense. However, in my opinion, there are still enough things to do creatively with that money within the State of Alaska to not send it back to Uncle Sam.

Reply by Tom Fink: I'd like to comment on that. I think there are a lot of things creatively due Alaska, but one of them is not putting another \$1.8 billion in the Permanent Fund, which you suggest you're going to do. If you want to do things creatively, fine, I'm all for that. But just putting money into the Permanent Fund, is, I think, extremely unwise and certainly not very damn creative.

Question to Panel: You've all spoken a little bit about the adverse publicity that Alaska is beginning to get and probably will continue to get because of our wealth. Don't you think having Alaska pay off a portion of the National Debt would from a public relations viewpoint, if nothing else, almost certainly show up on the front page of the Wall Street Journal and people in the Lower 48 might say, "maybe these blue-eyed Arabs aren't so bad after all?"

Reply by Chancy Croft: If the U.S. Congress has the power to remove our severance tax, for example, do you think that if we pay any amount of money on the National Debt this idea isn't going to occur to them: if Alaska can give us that amount of money just think what we can take on our own?

Question to Panel: The next question I have can be answered by all four panelists. If there is a chance the U.S. Supreme Court is going to rule on the Permanent Fund distribution plan and if they find that it is unconstitutional, what suggestions would you have for the Legislature when they go and rewrite that distribution plan?

Chancy Croft: My suggestion would be that they forget the idea. I think it was a bad idea and should be dropped. I do think it's unconstitutional. I think it was a mistake to try it the way they did and I think the idea should be canned.

Tom Fink: Okay, based on Chancy's last couple of remarks the next time we'll run on the same ticket.

Chancy Croft: It is interesting that Tom, Morrie and I are talking about public opinion in Alaska; the reason we're not in office is not entirely voluntary.

Tom Fink: Anyway, I agree with Mr. Croft's remarks. There's no point in my repeating them.

Morris Thompson: When I looked at the make-up of this panel it reminded me of Norm Sloane's North Carolina State offense, the four corners, you know, you usually bring the basketball team down and stall, they put one over here, one over here, one over here and one over here and they pass the ball to each other.

Fran Ulmer: I will comment not on the constitutionality of the Permanent Fund dividend, but rather on whether or not it's a good idea. The point is, everybody is getting a part of the oil wealth, only right now it's being distributed very unequally. This next year we'll appropriate \$225 million for home loan subsidies. Now, that's not home loans, that's the difference between what the market rate of interest is and the rate of interest you will pay if you're lucky enough to get a home loan. \$225 million. Now, Alaska Housing Finance Corporation tells us roughly 5,000 to 7,000 people will be lucky enough to get a piece of that pie. That means if you just divide it each one of those people will get a \$30,000 present from the State of Alaska. I'm simply saying that a Permanent Fund dividend distribution, which is a small amount of money, goes out to everybody. A lot of the programs that are right now in place in Alaska give some pretty amazing benefits to a pretty small number of people.

Question to Panel: What is the logic behind having the state tax Alaska business and then lending the money back at interest?

Chancy Croft: The logic behind everybody paying some tax is that you have a stake in what government does with the expenditures. Even though I have advocated the state getting a much higher percentage of the wealth out of Prudhoe Bay, I don't want to see an Alaska in which the residents of the state simply live off the oil that is produced and not pay any taxes on their own. I think that if you want something out of government you ought to be willing to pay a portion of it. So, I think that we ought to retain a tax structure.

The question of whether or not you pay it back has to do with what you think the priorities of the state are. To the extent that capital has always been a rare commodity in Alaska — as it is in other undeveloped areas — then it seems to me a legitimate function of an excess of state money is to make capital available for economic development. And one of the questions that always comes up is what's the rate of interest? Do you provide a subsidy because you're going to put that money in the market at a lower rate? It seems to me that if you can do it safely, if you can vest Alaska's surplus wealth at a rate of interest that is more than you get on other investments, but less than the rate that the people that receive the money would pay otherwise, you've created an opportunity for people on their own to improve their own lives. So, to that extent I think the state loan program has not only been a great idea, but probably has done more in the past few years for the economy of the state than a wide range of things that are usually considered as more important.

Tom Fink: I don't think there's any logic in the state taxing anybody, including the businesses. The loan programs make a lot of sense because I think a reduced rate makes some sense. But the idea of our paying some taxes, Chancy's concept that everybody should pay some taxes, I'll buy that if we need it. The only way that we would need people to pay taxes would be if we cut the oil and gas tax in half. The little bit of money that we pay in taxes is insignificant in our budget. We have a bunch of rules here that are in conflict. I agree with the idea that people should pay part of the tax. But when we've already got more money that we can possibly spend why should we be paying in and creating a surplus?

Local government doesn't have that situation. Local government doesn't have a surplus. Local government isn't rich. You're still going to be paying local government taxes, I think. Of course, the Legislature could replace that — I hope they don't. But I hope that they reduce local government by reducing taxes, by reducing debt, by building capital improvements for them. But, cutting or our paying taxes to the state doesn't have any effect on the growth of government because it's too small. Our paying taxes to local government does have an effect because it isn't that small.

Fran Ulmer: I agree with Chancy's explanation, with regard to both a state loan program that can funnel dollars particularly into areas of the state which otherwise would find it very difficult to get necessary capital for business investment. It makes sense and it makes sense for the future economy of the state. I also agree that there should be some individual taxation. Maybe it's just a product of my own upbringing and I was beginning to wonder if I was the only person left in Alaska that didn't mind paying taxes. But I was born and raised in a small town in Wisconsin. My parents were small businessmen. They paid taxes and they didn't complain about it because they felt that they owed something to their government, they owed what it cost government to provide services. I don't mind paying taxes because when I look at what state government is providing to me in terms of education for children, roads, docks, whatever it is, those are services. And I think it's part of my responsibility to help pay for them.

Question to Morris Thompson: Do you think that business subsidies should be advanced to rural businesses, in this case village corporations, to help them develop potentials from their lands?

Morris Thompson: I would say that to the extent that we're providing business subsidies to the urban communities, certainly. We're not asking for any different treatment than anyone else. We're asking for the same treatment — we all live under the laws of the state of Alaska. We're all citizens of the state. I think that whatever programs are applicable for the citizenry ought to apply statewide.

Question to Fran Ulmer: Where does the University of Alaska fit in, in the spending of the state? Are they high on the list of priorities?

Fran Ulmer: You mean personal? What the Governor proposes for next session? How it fits into my four "S" plan?

I think money ought to be spent on the University. I think more money ought to go into revenue sharing, I think more money ought to go into fish hatcheries, I think more money ought to go into State Troopers, I think more money ought to go into a whole bunch of things. As a matter of fact, that's one of the most interesting challenges of sitting on the Budget Review Committee is that almost every idea that comes before us really sounds good. But then again you get back to the total and it's absolutely impossible to fund it all.

Question to Fran Ulmer: Of the \$2 billion that is presently contemplated as going into the operating capital budget, can you divide that out?

Fran Ulmer: Roughly, and this is with the caveat that until the Governor actually approves the budget

these are only recommendations of the committee, but we're talking about roughly \$175 million for capital and the rest for operating.

Question to Chancy Croft: How would you limit state spending?

Chancy Croft: I think you have to break it down into the old expenditures versus the new expenditures. With regard to the old expenditures, I think most of the techniques are there, it's just a question of whether you use them or not. I don't want to get off on things I've talked about before, but the big problem with state expenditures is the money that's already in the budget, not so much the money that you add to it. It's a fact that once you adopt a program it becomes permanent, whether it was a one shot expenditure or not. And, of course, the Legislature has been wrestling with this question of what you do with sunset on boards and commissions and so far the boards and commissions have won. It is a tough process, but unless you constantly go through it it's like a snowball. You have to do something with regard to sunset legislation to constantly ask the question what was good expenditures 20 years ago or 10 years ago, do we really need to add inflation onto that? And that is a tough decision. It usually isn't done.

With regard to the new expenditures, it seems to me that some type of approval, either in the election process or by actually voting on it is a good idea. If you're going to do away with bonding for capital projects and you remove the public's final say on capital projects I think you may well want to consider some type of formal approval by the population, even if it's not by bonding.

Reply by Tom Fink: I'm convinced that whether you have a constitutional amendment or a statute, you cannot stop the state spending money. Legislators and governors are much more innovative and imaginative than that. My argument is that's why we shouldn't have a surplus. As long as we have a surplus government will grow. And if you put — the Chamber says one set of limits, and Common Sense says another set of limits and the Governor says another set of limits, in any limit they put there are going to be flexibilities. It just doesn't take an awful lot of ingenuity. I spent nine years in the Legislature and you pass an initiative or a constitutional amendment and I'll tell you how to get around it.

Chancy Croft: I want to comment that it would be nice to always match expenditures with income, but then the question is what happens when you have something like Prudhoe Bay? If you were sure that that money was going to last for the rest of Alaska's history that might be one thing. But all our information indicates that field is going to last for something like 20 or 30 years. And one century of Alaska history indicates that the wealth of Alaska is going to be taken outside the state of Alaska and very little is going to be left here. So, the question is how are you going to make sure Alaska gets what it conceives to be its portion of the oil wealth at the time it's produced? You cannot tax a barrel of oil once it's in Oregon. And you can't tax in 1985 a barrel of oil that was produced in 1980. If you want your portion of it it may come in faster than you spend it.

So, I think the challenge that we have is not to say on the one hand we don't want it at all, or on the other hand we're going to spend it all as soon as it comes in. But how you match up what you want on a long term basis with what you're going to receive, even if that means you receive the money before you want to or need to spend it.

Morris Thompson: One of the difficulties about the challenge of plenty is no one knows, Chancy or Tom, that there's not going to be — I don't think there'll be another Prudhoe Bay certainly in Alaska — but if you look at what's going on up there they're now looking at Kuparuk on the left, they're looking at the Beaufort over here, Flaxman Island over here, all are fairly promising. We have no guarantees that we're going to have some income, but I think that we can all be reasonably assured that the oil and gas industry is going to be here for some time paying a very significant amount into our state treasury. You know, we tend to get tunnel vision and look at Prudhoe Bay and say it's the end of the world. I'm one that believes that there are other fields up there that will bring some income for a long, long time.

Question to Fran Ulmer: How many new positions are in the new proposed budget at this time?

Fran Ulmer: The last estimate that I heard was 200. I must confess that that is as of approximately a month ago. There's been a tremendous effort made to come in with a budget that would in fact have no new employees and most of the agencies received notes back from the committee saying, "please find some other way to do it if you possibly can". Everything from private contracting to simply removing positions on the list right now that nobody's sitting in. So, when the Governor gives his budget address to the state I'm sure that will be a statistic he will give to you and hopefully it will be less than the estimate I gave now.

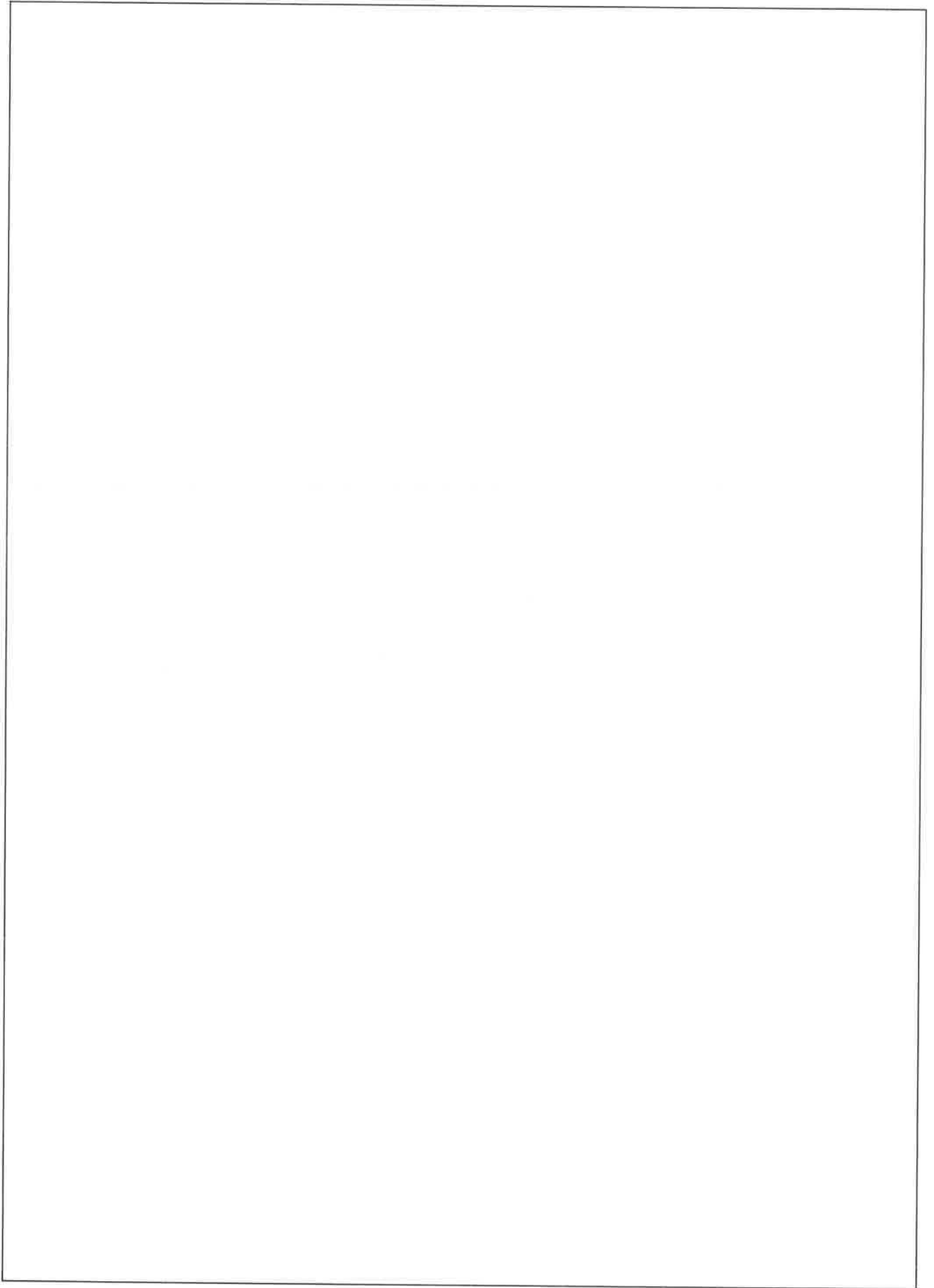
* Once again, please note that this exchange is from an actual transcript of the meeting and participants have intentionally not been given an opportunity to edit the comments.

Governor William A. Egan

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Featured Speaker

**Featured
Speaker**



“The Frontier State: No Stranger to Challenges”

This subject, no stranger to challenges in this frontier state, is one that affects each of us who is here today and every Alaskan from Ketchikan to Barrow. I think we all realize that and we realize that these are very serious times in a way that is much different than when you are fighting for it in a cash flow situation where you are wondering where the next thousand dollars is coming from. But I think it's important to give just a few brief facts that can be beneficial in the fight that I know is coming with respect to congressional efforts to again change the Alaska Statehood Pact that was ostensibly concluded when the Senate of the United States voted the final vote on Alaska statehood on June 30th, 1958.

But in territorial status I think we have to remember that Alaska, even then, was subjected to prohibitions not made upon other U.S. territories. For example, no territorial land ownership entitlement, no system of territorial courts, no jurisdiction over territorial natural resources, no authority to establish general local government and so on and so on. In achieving statehood Alaskans had to agree not to be covered by the Reclamation Act of 1902 as amended. This was because key members of Congress, in both houses, were concerned that Alaska, if covered under that Act, could annually demonstrate such strong need for reclamation funding that many projects in other states might be subjected to long delay. In return for Alaska not being covered under the Reclamation Act 90% per annum of the net proceeds realized from oil, coal, phosphates, oil shale and sodium on the public domain in Alaska is paid to the State of Alaska. To the best of my knowledge the Swanson/Soldotna Creek field is presently the only area where the 90/10 formula has been triggered. But I feel it important that the facts be known about how the 90/10 federal public domain formula came about for Alaska, lest the general public and present day public officials be taken in by claims that it happened solely as a result of benevolent desire on the part of the Congress of the United States to help Alaska.

One only has need for cursory knowledge of current geological information to arrive at the conclusion that there will be several substantial oil and gas discoveries on public domain lands over the next 20 years.

Make no mistake about it — and this is what I think all of us have to keep in mind — there are serious activities behind the scenes and moves afoot to again violate the pact that Congress made with Alaska with passage of the Alaska Statehood Act on June 30th, 1958. The first move will be through legislation designed to reduce the 90/10 formula in Alaska Statehood Act down to at least 37½% for Alaska from public domain land. Even more serious than drastic reduction of our entitlement from public domain lands, as described in our Statehood Pact with Congress, is a move that will change the rules of the game. It will mean that Alaska's oil fees from oil and gas production on state owned lands will be reduced to a relative pittance of present day revenues from such production. I hope the state presently recognizes what is in the offing and has engaged a strong team composed of experts from within and without government to research and have all data available so that when lightning strikes in these regards the state will be ready with well documented historical facts as well as constitutional patterns to ward off the greedy, vulturistic proposals that will have been brought forth in the name of pious righteousness.

The challenges that confronted Alaska in its advent to statehood were more complex and more uphill than any other organized territory had to suffer when they were admitted to the Union because of the specific organic act, prohibitions directed solely to Alaska. Some of them were enumerated earlier in my presentation. Over the first eleven years the cash flow monetary challenges posed almost insurmountable road blocks at times and with discovery of the 25 billion barrel crude oil reserve at Prudhoe Bay and its interwoven natural gas estimated at 25 to 29 trillion cubic feet it seemed that the fate of Alaska would shortly be bearing a continuing path of fruit as the crude oil would soon be winding its way to the market place.

In line with this discussion, the other evening here in Anchorage at a meeting attended by many citizens of this community, Murray Todd, whom I believe is the President of Dome Petroleum and is also doing all the work in the Canadian Beaufort Sea and is seeing that it is done right, made the statement that their reserves on the Canadian Beaufort Sea were estimated at 40 billion barrels and up to 300 trillion cubic feet of natural gas. I don't think it's unreasonable to think that on the Alaska side of the Beaufort Sea that — maybe it won't



Governor William A. Egan

hit 40 billion barrels, maybe it won't be a Prudhoe Bay, but it's going to be a many billion barrel find — and I just think we should get going on that faster than we are. We should be because who knows with the slant drilling techniques — not holding out anything against our Canadian friends, but by the time we get there the number of barrels that we would be seeking might be gone.

With respect to the Trans-Alaska Pipeline — and thank God it exists — I think in the minds of all of us who day-to-day followed the events that transpired out in the Gulf of Alaska when the Prinsendam caught fire, was what a tremendous thing that the tanker Williamsburg which was heading from Valdez to the marketplace and the tanker Intrepid which was heading to Valdez were on that course. The Coast Guard people who did a tremendous job must have breathed tremendous sighs of relief that those tankers with their helipad arrangements were there. I think there is no question in the world, had it not have been for the Trans-Alaska Pipeline there would have been a tragedy involving between 300 and 400 Prinsendam passengers. I think this has to be pointed out.

But with respect to the Alaska pipeline, resolving the applicable environmental safeguards became entangled with the national environmental movement and the actual beginning of construction of the Trans-Alaska Pipeline which was delayed to a later date than at first contemplated. This is not to say that there was not some good in some of the environmental activities that went on. I think the oil industry would be the first to admit, along with the state officials, that much was learned environmentally in the time prior to the time that complete engineering was in place and ready to go. But there is no question in my mind, too, that the technology was such that the activity should have started at least two years before it did. There were team members of the United States Senate with their advisors who were convinced that the question of whether or not construction of the Trans-Alaska Pipeline should begin would be decided by the courts. Had one of Alaska's U.S. Senators not vigorously opposed that concept from the beginning it is not unlikely that construction of the line might have become embroiled in a court edict that would have slowed the construction process for an additional two or three years or even longer.

Over the years one of the poorest areas of the United States is Alaska in many respects. It has long been my feeling that far too few Alaskans are familiar with the abject poverty that exists even today in some of Alaska's northern and far western villages and along the Kuskokwim River and northwestern coast villages. This great land of ours has always been capital poor. And let us not approach our present challenge, the challenge of a large amount of revenue available with the sense that all of it should be put away for the security of future generations of Alaskans or that large amounts of money must be used to enlarge the operational functions of government, or that all the surplus should be shifted to every individual presently Alaskan, or that all of it should be committed to state loan programs, or that all of it should be committed to badly needed capital improvement projects, or to commit it to personal whim projects that appear to be a question of public good or enhancement. And let us not, in the doing of it, hit on people enhancement programs as the things to attack to keep the operational cost down.

Those responsible for handling Alaska's purse strings have never faced a time of more critical decision than they are facing now. All involved, regardless of political affiliation or philosophical persuasion, must face their responsibilities with their feet on the ground. Individual gain or favor must be forgotten. The good of all must be the approach to the challenges of the future. The State of Alaska now has at least 38 loan programs dispensing large amounts of money. The administration of each one of these programs can be discussed and described as a separate state bank, but operating under 38 separate banking system roofs.

I think it breeds for all the way down through the years and the future if this is the way it proceeds every two years when you have an election with charges of corruption and of crooks in the money pile and all that sort of thing. Whether it is true or not, I think some changes need to be made. I strongly believe that these various 38 institutions set up and going their own way, as it were, should somehow come under the direct overall responsibility of one management institution.

I've talked to any number of legislators in the past few years, even before 1974, that perhaps in planning for large sums of money coming into the treasury we should have a committee of the Senate and House Finance Committees, representatives of the executive branch and perhaps some others form a committee and go to Bismarck, North Dakota because North Dakota is one state in the Union that has a statebank of its own. Or the only state that has a statebank, to my knowledge. It's worked very well. I think it's about 60 years old and it has not caused a deterioration of the private banking system in the state. In fact, the private banking system in North Dakota is very healthy. I talked to one banker from North Dakota a couple years ago who said that if he was asked he would say publicly you shouldn't have that kind of a banking system, but privately he feels that the competitive spirit in North Dakota's private banking community is more on the ball because of that statebank. But I think in trying to find the answer here, in trying to have professionals operating and functioning with the surplus funds and the loan programs — the loan programs could be put in this bank, under the supervision of the bank with the criteria that you have some loan programs where the Legislature will set them

up with the idea of making loans with a lower risk factor involved, and higher risk factors in others. Each one would have its criteria and would have regular banking experts in the institution handling all this, as well as handling the huge amount of surplus funds. I am absolutely confident in the coming elections this is going to be a source of charges and countercharges whether true or not, that is going to bring a lot of good public servants to their knees when they were not guilty of any particular thing at all. I note that the legislators, the state officials, travel a lot and I think that if they could set up a committee composed of people of all political parties and go to Bismark, North Dakota for two or three weeks that no one could be enhanced any more than all the people of Alaska. If they decide that that system is not the right system to handle this, fine. But I think with long years of experience that bank has had and with the strong, healthy private banking system they also have in that state that it is worth sincere and intensive research.

“Testing Alaska’s Opinion on Government Spending Policy”

In the aggregate, “public opinion” will provide good guidance regarding the directions society desires to travel. Not solely because it is the “right” of a self-governing people to determine their course, but simply because it is they who literally “know best” where they want to go and how they wish to get there based on their own life’s experiences.

This doesn’t mean that everything that is reported as the “public will” must be done, there will be times and cases where something can’t or shouldn’t take place for reasons the general public may not be aware of. In these cases, there is nothing at all wrong with a responsible official reporting to the citizens that he is aware of their sentiments regarding some issue or position, however there are some considerations that they are not aware of — then proceed to explain why the sentiment can’t be satisfied. In most instances, the acknowledgement of awareness of the public position is satisfactory. On the other hand, in the vast majority of cases, public sentiment should be heeded because it will eventually manifest itself in one form or another in any case.

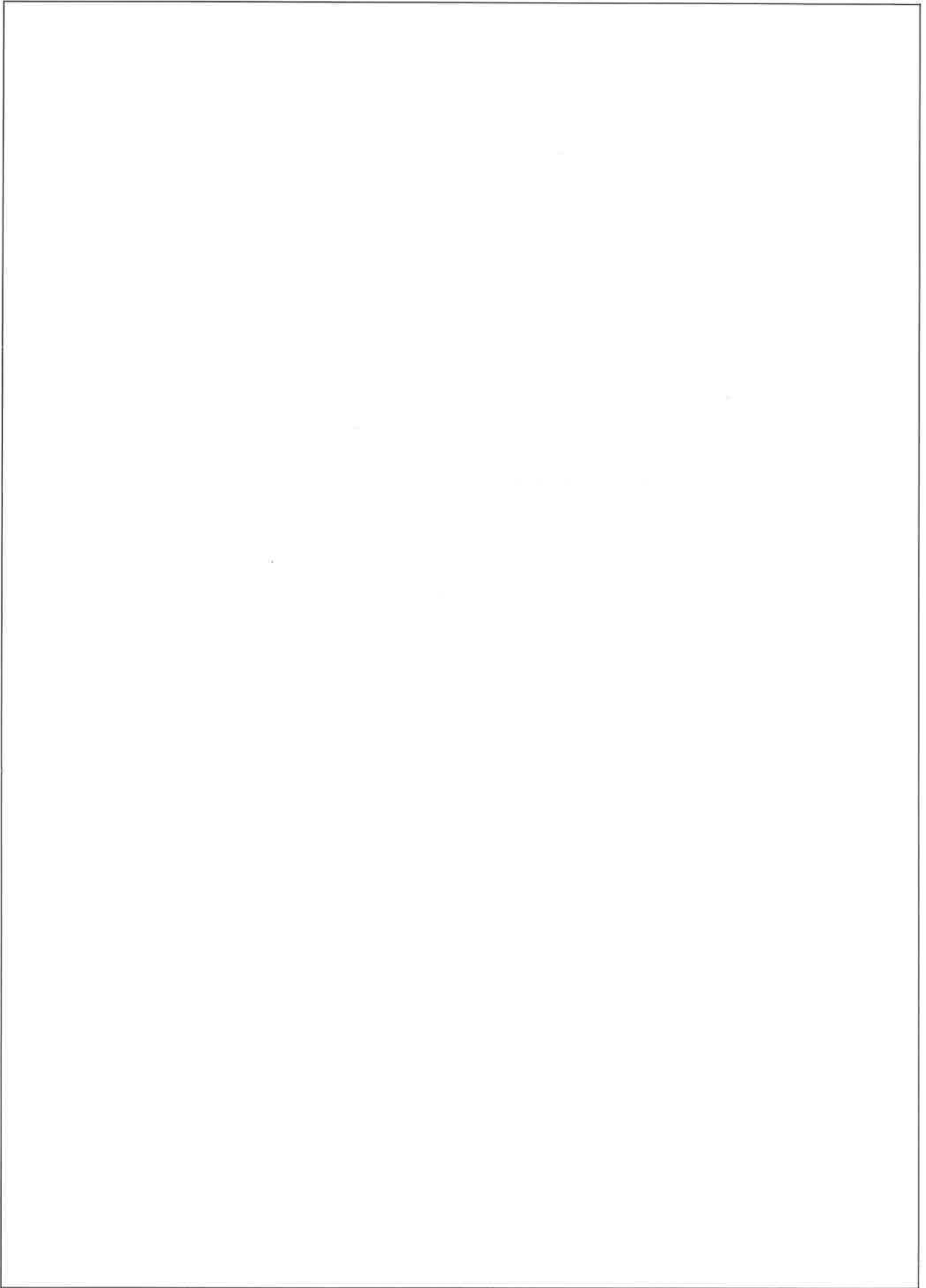
It’s normally assumed the public will express itself only at the ballot box, but there are other ways in which the public will be heard — decisions in the market place, decisions concerning family planning, choices regarding where to live, leaving one geographic area for another, removing children from public schools and placing them in private schools — all of these are powerful physical manifestations of public sentiment which otherwise have not been accommodated.

Keeping in close touch with the values of citizens through modern survey research involving personal contact is one of the best methods of ascertaining current public state-of-mind, and spotting trends or shifts from past positions.

The following report detailing public sentiment regarding questions on state spending, state construction projects, the Permanent Fund, and the business income tax illustrates how modern survey research can be a useful tool in gauging public awareness and opinion on major state issues.



David L. Dittman
President, Dittman Research Corporation



Multi-Quest Survey prepared for Common Sense for Alaska

Prepared by Dittman Research Corporation

During the period December 15 through December 21, 1980, residents from sample locations throughout rural and urban areas of the state of Alaska were personally contacted by telephone by professional interviewing employees of the Dittman Research Corporation. The views and opinions of the Alaska residents were recorded on a number of topics on a strictly confidential basis.

The results of that survey and an analysis is provided below:

Findings

The public state of mind is approximately evenly split regarding the subject of financing major state construction projects . . .

"Currently the state sells bonds to raise money for major constructions projects. Some people have suggested that the state should use its budget surplus to pay cash instead, while other people have suggested that the state continue to sell bonds to raise the money. Which approach do you support?"

Pay cash	41%
Sell bonds	39%
Undecided	20%

. . . however, citizen preference concerning limiting state spending is clear . . .^{*1}

"Some people support amending the state constitution to limit state spending to the level of this year (1980) with increases only allowed for inflation, population growth and emergencies. Other people oppose the amendment and say state spending should be allowed to increase as funds are available. What is your opinion — do you favor or oppose amending the state constitution to limit spending?"

Favor	54%
Oppose	35%

Alaska residents also clearly feel the state's Permanent Fund money should be invested in Alaska...

"Some people feel the state's Permanent Fund money should be invested exclusively in Alaska, while other people feel it should be invested for highest return and safety wherever that might be. What do you think?"

Only in Alaska	55%
Highest return	25%
Both	12%

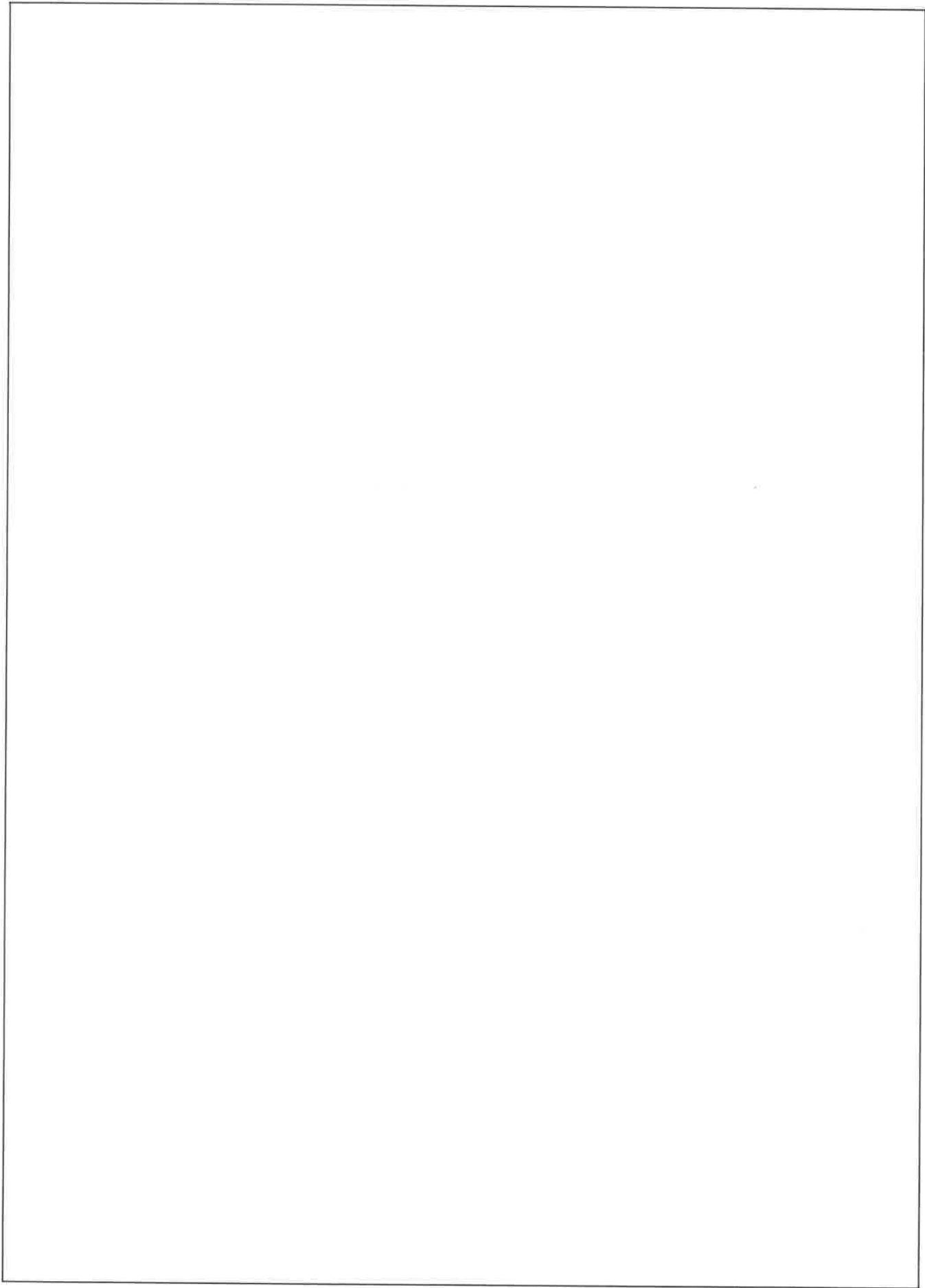
. . . but views regarding eliminating the business income tax are not as clear cut . . .^{*2}

"Do you favor or oppose eliminating the business income tax in Alaska?"

Favor	39%
Oppose	39%
Undecided	22%

^{*1} A recent survey on the same topic, but worded slightly differently reported 60% support for a constitutional limit to state spending.

^{*2} The same state-wide survey previously described featured a similar question with a "reduce or eliminate" option — in that case, 50% supported the measure.



Survey Results Taken From Participants At "The Challenge of Plenty" Event December 13, 1980

Following are the results of a poll taken of participants who attended "The Challenge of Plenty" event held Saturday, December 13, 1980. Of the 460 persons that attended the event, 241 answered the survey which was distributed at the conclusion of the event*1. It should be noted that the persons taking this poll had spent a day hearing facts and opinions expressed by a number of Alaskan thought leaders.



1. From your personal point of view, do you feel the State Government is spending too much, not enough, or about the right amount of money?
 - 71% Too Much
 - 10% Not Enough
 - 14% About Right
 - 5% No Response
2. As an individual, at the present time do you feel you have enough control over the amount of money the state spends?
 - 8% Yes
 - 89% No
 - 3% No Response
3. At the present time, do you feel Alaskan Citizens as a whole have enough control over state spending?
 - 7% Yes
 - 88% No
 - 5% No Response
4. What is the **one** main thing you can think of that would help state taxpayers have more control over state spending?
 - 16% Constitutional Amendment to Limit State Spending
 - 5% Move the Capitol
 - 11% Voter Approval on Major Projects
 - 6% A More Aware and Educated Citizenry
 - 6% More Accessible and Responsible Legislators
 - 6% Voters Elect More Competent Legislators and Governor
 - 3% Legislative Reform, Including Abolishing or Restructuring Free Conference Committees
 - 40% No Response
 - 7% Other Responses (one only per item): a tax credit for voting in elections; capital investments of highest returns; limitations based on development; a State Bank like Gov. Egan suggested; referendum

on capital projects and creation of new agencies; reduce state income; better planning; an adequate job market; return all oil wealth and tax if needed; establish a "super legislative audit" agency; have more of these awareness programs; have the legislature meet every other year and abolish interim committees; limit the session length.

5. Did you personally favor or oppose repeal of **state individual income taxes**?

84% Favored Repeal
12% Opposed Repeal
4% No Response

6. Do you personally favor or oppose repeal of **state business income taxes**?

78% Favor Repeal
16% Oppose Repeal
2% Favor Reduction
4% No Response

7. Some people support amending the state constitution to limit state spending to the level of this year (1980) with increases only allowed for inflation, population growth and emergencies. Other people oppose the amendment and say state spending should be allowed to increase as funds are available. What is your opinion — do you favor or oppose amending the state constitution to limit spending?

73% Favor
20% Oppose
7% No Response

8. Regarding taxation, some people have said the primary purpose of personal and business income taxes is to provide money to run the government, and if the government begins to accumulate more money than is necessary to run its operations then taxes should be repealed until needed again. Do you agree or disagree?

79% Agree
15% Disagree
6% No Response

9. If the state legislature passed a bill to repeal state business income taxes, and it was vetoed by the Governor, would you support or oppose the Governor's veto?

18% Support Veto
76% Oppose Veto
6% No Response

10. If the state legislature passed a bill to repeal state business income taxes, and it was vetoed by the Governor, would you want the legislators from your district to vote to override the Governor's veto?

80% Yes
14% No
6% No Response

11. Currently the state sells bonds to raise money for major construction projects. Some people have suggested that the state should use its budget surplus to pay cash instead, while other people have suggested that the state continue to sell bonds to raise the money. Which approach do you support?

18% Sell Bonds
63% Pay Cash
10% Both
1% Uncertain
7% No Response
1% Other*²

12. Do you favor or oppose a repeal of local property taxes?

63% Favor
31% Oppose
1% Reduction
5% No Response

13. Do you favor or oppose a reduction of local property taxes?

84% Favor
9% Oppose
7% No Response

14. What are your largest concerns regarding the effects of possible repeal or reduction of local property taxes?

13% No concerns regarding reduction or repeal
39% No Response
10% Loss of citizen control over government bureaucracy
18% Loss of local control
3% Loss of control over school board administration and policies
17% Other: need a lid on municipal spending; reduced services; less control over bonded projects; long term funding of government after

revenues stop; use of the money; inequities between communities; inequities between residential and commercial; lack of citizen's fiscal responsibility; that it won't occur soon enough; separates privileges and responsibilities; difficulty of reimposing taxes after repeal; will that be enough?; possible real estate speculation and effects; influx of "undesirables"; lack of sufficient funds to operate government.

15. Do you believe mineral rights should or should not be transferred to citizens in conjunction with the surface rights in state land transfers?

66% Should be transferred
20% Should not be transferred
14% No Response

16. Do you feel major capital projects should or should not require the approval of the voters?

82% Should
12% Should Not
1% Should (by mail-in vote)
5% No Response

17. Do you feel the state should or should not be responsible for total funding of primary and secondary education?

45% Should
47% Should not
8% No Response

18. Some people feel the state's Permanent Fund money should be invested exclusively in Alaska, while other people feel it should be invested for highest return and safety wherever that might be. What do you think?

43% Invest exclusively in Alaska
44% Invest for highest return
4% Both
9% No Response

19. Do you favor or oppose state funding for the proposed Susitna Dam project?

89% Favor
4% Oppose
7% No Response

20. Do you favor or oppose state funding for a proposed Knik Arm crossing?

75% Favor

15% Oppose
10% No Response/uncertain

21. Do you favor or oppose state funding for the proposed Alaska Natural Gas Pipeline?

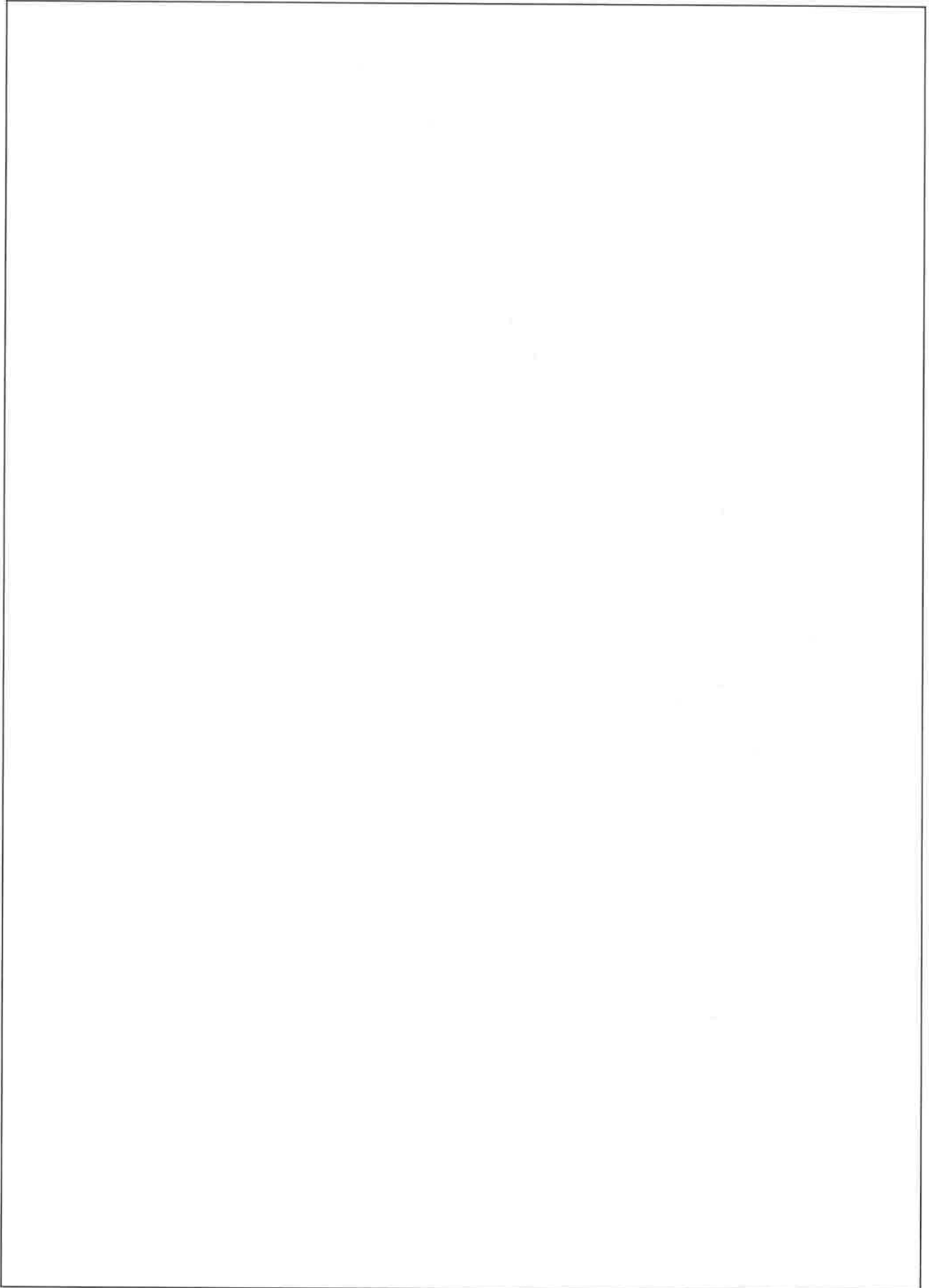
42% Favor
48% Oppose
2% Favor, if using Alaska route
8% No Response

22. Do you favor or oppose tighter controls on legislative interim committee spending?

89% Favor
2% Oppose
9% No Response

*1 Survey results were based on 241 questionnaires. Each response counted as 0.41.

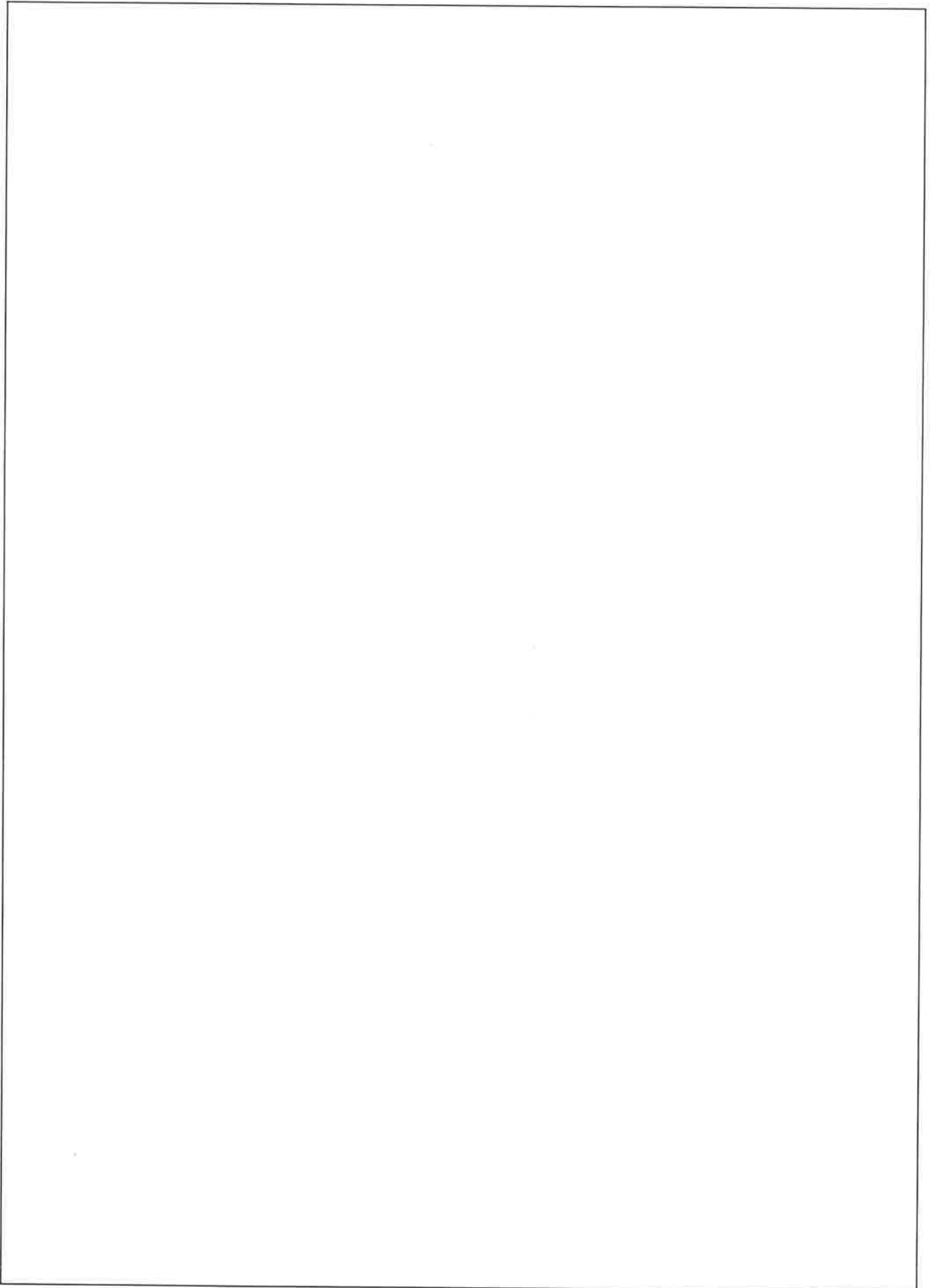
*2 Other included: bond only if revenues from project service the debt; revenue bonds only, not general obligation bonds; pay cash with voter approval.



Guest Commentaries

The viewpoints of the following distinguished leaders are believed to be of such importance to the issues addressed at "The Challenge of Plenty" program that, although they were not able to participate at the event, they have agreed to submit their opinions for publication in this booklet.

We are grateful for their contributions.



“Principles to Be Employed by Alaska State Government as It Develops a Spending Policy for the 1980s”

Alaska's surplus oil revenues provide her with a grand opportunity. If Alaska seizes the whole of it, she will succeed magnificently and gain a triumph that her sister states could never hope to match.

A dependency trap is created by the state, however, in its urge to redistribute the wealth either by regulation, subsidy or partnership. In the end, the recipients' capacity for self-help is impaired and the existing and potential wealth of the state is reduced. The Alaska Renewable Resources Corporation is an active agent in the promotion of this pernicious process. The Alaska Energy Center seems to be joining the ranks.

Job creation is something that government does poorly. The legislature should not tempt the private sector with the siren calls of subsidy and partnership. In the final analysis, government money spells regulation and control. The legislature, therefore, should be in charge of “stimulating” by governmental intervention the so-called renewable industries, that is, agriculture, bot-tomfishing, tourism, and timber. Still less should it be in the vanguard of research on solar and wind energy projects. Instead, it should provide tax relief (not token but total) and appropriate infrastructure (railroads, deepwater ports, and hydro-electric power) in order to aid existing industries and attract the emerging industries of the future. New industries are the only reliable source of job growth in Alaska.

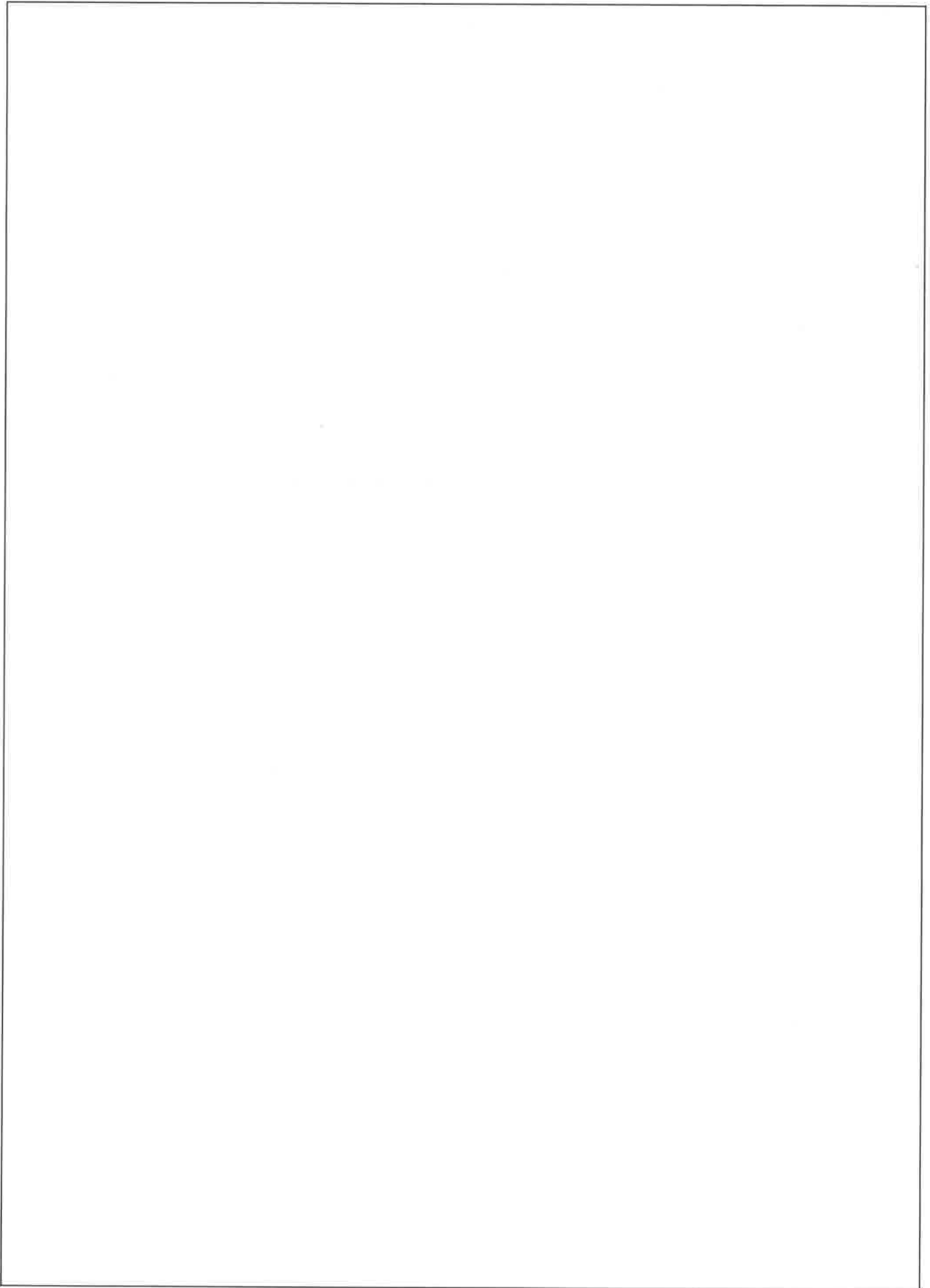
In the coming session, our state legislature will not be asked to choose between virtue and vice, but between the common good and the myriad special interest; between an Alaskan future of equalitarian comfort and mediocrity underwritten by government and a more heroic outcome: an Alaska wherein each person has a full opportunity to improve his condition by means of his own efforts.

Legislators can bring about a favorable outcome only if they can summon up the detachment and the fortitude to reject the politics of instant gratification. After all, this is a representative form of government, not a mass democracy. The goal of the legislature should be to refine and elevate the insistent demands of special interests and to translate them into the common good. By promising services and subsidies to all, it generates a demand for them and, in essence, abdicates its position of responsibility and leadership.

Let it not be said of this legislature as was said of Augustus with Rome: he found it brick, he left it marble. Rather, let it be remembered as the legislature that wisely gave Alaskans the freedom with which to work out their own destiny — with their own brains and their own sweat.



Harry Donahue
Former Commissioner,
Alaska Pipeline Commission



Arthur E. Hippler
Past President, Alaska Civil Liberties Union
Associate Professor of Anthropology, I.S.E.R., University of Alaska

“State Wealth: The Core of the Problem”

It is transparently clear not only that the unusually high levels of state revenues from oil and gas royalties and taxes offer a challenge to our collective wisdom, but that substantial reasoned effort is being expended to meet that challenge. The recent Common Sense inspired conference showed that, if nothing else.

Proposals such as the elimination of **all** taxes and license fees, increased savings in the permanent fund, a moratorium on bonded indebtedness and the statutory or constitutional limitations on state spending are all moves in the right direction. They all, however, tend to share the deficiency of being ex post facto and hence reactive responses. One exception to this is the total elimination of taxes and fees. It is the single best way to ensure a widespread direct economic benefit from resource extraction. This is so even though it may well encourage legislative irresponsibility, increases dependency upon government services and reduces citizen power to limit expenditures. Tying this to an additional handout to non-taxpayers is, however, simple political demagoguery and is a transparent attempt by the present administration to buy Native votes. It should be absolutely discouraged.

What is more important is to attack the problem at its source. So long as a nearly inexhaustible spigot is available to spew out wealth to the state coffers it will be well nigh impossible to restrict the power of the state to buy votes and control the citizenry through creative expending of that wealth. With all due respect to those who think differently, I nonetheless believe they are hopelessly naive.

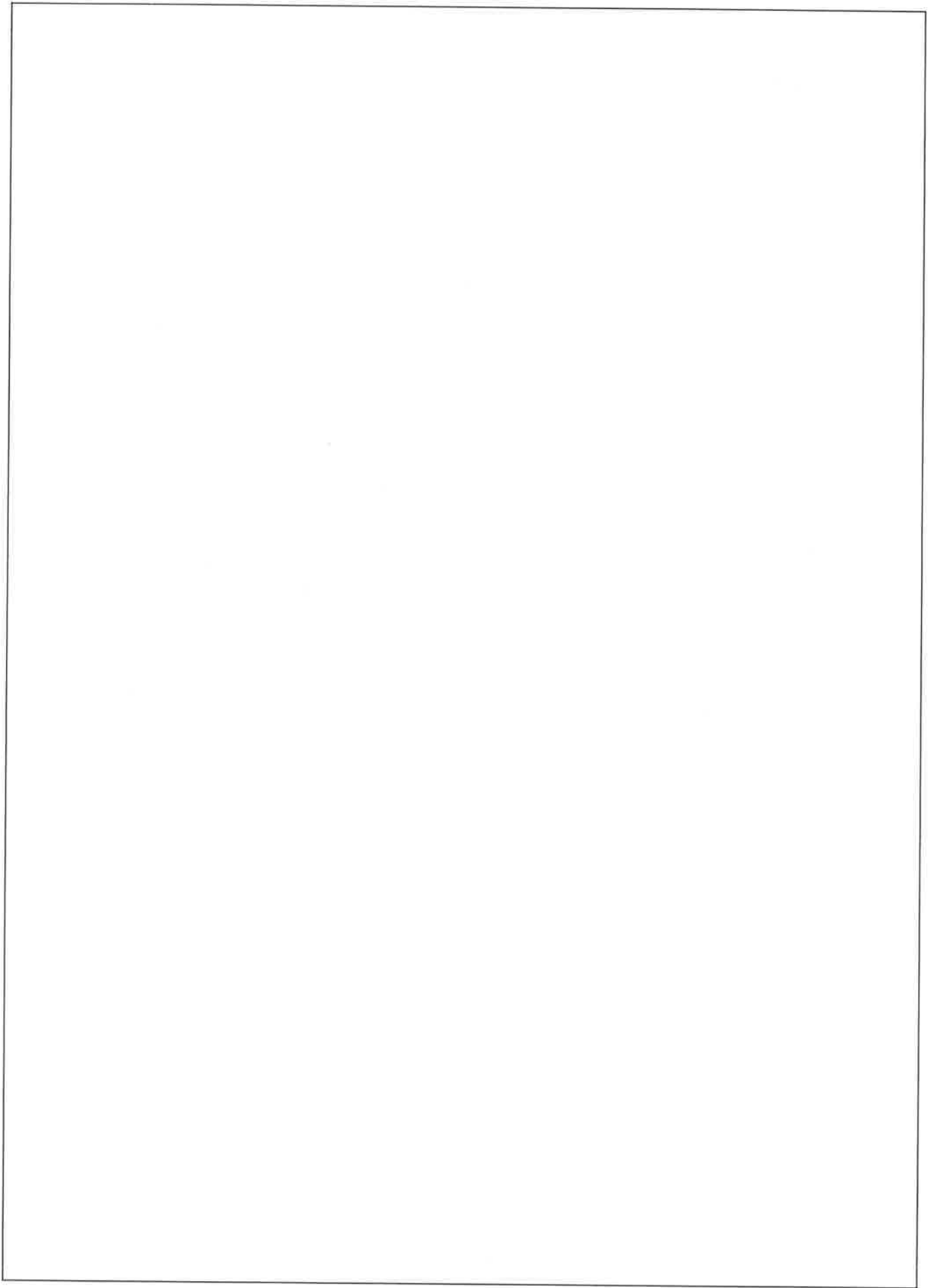
The core problem is the state's ownership of subsurface mineral estate and its actual control over and ownership of nearly all the non-federal non-Native lands in the state. This is not, as some aver, solely because of the state constitution. If the Attorney General's office is correct, it is in substantial part imbedded in the Statehood Act itself that the state retain first title to subsurface mineral estate.

What is necessary then is for a constitutional amendment clearly abrogating the state's primary right over subsurface estate and in conjunction with other western land grant states, pressure upon the federal government to alter its insistence on government control, at some level, of these resources. Additionally, **all** of the land not required for state parks and some very necessary right of ways, etc. should be disposed of either by lottery or some very nominal cost, in such a way as to vastly broaden individual ownership of land in Alaska. Such ownership should be in fee simple with full subsurface rights.

The state's present land disposal system is a joke. Regardless of difficulties the state should pursue these parallel policies instantly. While this will not reduce the flow of royalties from present royalty producing lands, it will at least limit future state power so derived. It really doesn't matter who gets the land so long as it is **not** the state.

So dramatic an approach would fundamentally alter the character of Alaska for the better, making this a land owned by people, not by government. How this is done obviously depends on issues too complex to raise here, but that it is done and when is far more important. Immediately would not be to soon.

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“Principles to Be Employed by Alaska State Government as It Develops a Spending Policy for the 1980s”

There are probably as many differing ideas about State government spending as there are residents of our State. The thought bespeaks Alaska's most unique resource, its people. While the conventional wisdom about Alaskans is in many instances wrong there are fundamental characteristics that are generally accepted. Alaskans are racially and culturally diverse. They have a well refined sense of personal independence. There is among Alaskans a philosophical, and in the case of Alaska Natives, a spiritual attachment to Alaska's natural environment. Other characteristics are certainly shared, but the three mentioned here should unequivocally be major touchstones in the development of public policy if that public policy is ultimately to serve residents.

To serve presupposes understanding, sensitivity and the ability to act promptly and responsibly. I am concerned that the sheer size of State government is making this more and more difficult. I speak from my experience as a staff level State employee, an agency director and a member of the Alaska Cabinet when I suggest that much tighter control than currently exists be placed upon growth of government operations. State employees are public servants in the highest sense and I do not mean to denigrate them. But the bureaucracy of our government collectively is a powerful institution of a size when juxtaposed against Alaska's total voting population that even now raises the issue of our real ability to control it.

Having said that about State government growth (while cleverly not suggesting specific remedies) can I then responsibly move to discuss what more government must do? Absolutely for I believe that it is easily within the capacity of the current level of government operations to significantly increase its service if priorities are rearranged and the bureaucracy restructured. I suggest that the remedies are fairly obvious and known to policy makers. What must be determined is the political will to act.

Any general discussion of Alaska's new oil wealth seems too often to presuppose that our basic human and community needs have already been met and the discussion can be focused on grand scale infrastructural development for major economic development, community enrichment and direct personal financial participation. Such is not the case. Examples are abundant. The suicide rate among young Alaska Natives ranks near the top in our nation. As a general indisputable proposition the health, social service, housing and educational needs of Alaskans have yet to be adequately met. For State spending these areas of need must continue to be high priorities and be more comprehensively addressed. And we can do it without increasing State bureaucracy.

The king crab, tanner crab and salmon industries currently in place at Unalaska (Dutch Harbor) comprise one of Alaska's largest and concentrated economies. Thousands of transient workers, numerous processing plants and vessels demand now human, community and industrial services that are not remotely available. Prince of Wales Island, third largest island under the American flag, in Southeast Alaska is home to Alaska's timber industry. On the large island are the towns of Hydaburg, Craig, Klawock, Thorne Bay and Hollis and a number of semi-permanent logging and fishing camps. The island has a total permanent population of approximately 2,500. Most of the timber harvested to feed the large Louisiana Pacific Company's pulpmill at Ket-chikan is harvested there. One of Alaska's few wood processing mills is located there as are a number of canneries and cold storages. For the residents, communities and businesses of Prince of Wales Island there is no hospital. There is no regular air transportation except for small single engine float planes. The one airport on this one hundred twenty mile long island is a gravel strip of 2500 feet without navigational aids or lighting. These deficiencies, and more exist in an area which produces in excess of one hundred million board feet of timber each year and many millions in fisheries products. Such basic community services as water, sewer, electricity, telephone, schools and roads are inadequate for the current population of Prince of Wales yet projected growth in the timber industry alone may double the island's population in this decade.

These are casual examples. There are many, many more. State government must meet these needs. It certainly can no longer plead poverty.

I have no quarrel with using a portion of State revenues to fund major infrastructural development in such areas as transportation and power. However, they must be tied to some realistic expectation of economic and community growth and not be unduly speculative. At a minimum any such development should accommodate the concerns, needs and desires of local areas affected and should not pose a financial burden when State revenues from oil begin to decline.

The State must keep in place, both at the local and State level, a system of taxation sufficient to produce

needed revenues when oil revenues decrease as expected and alternative revenues are not available from other sources.

Recognizing that we are a frontier economy the State must continue to craft reasonable incentives to promote private sector growth. Such incentive must not provide any sustained subsidy and should not promote economic growth beyond the capacity of the private sector to of itself maintain such growth. Recent State programs designed to assist economic development through soft loans and other subsidies, have shown unintended results which if continued can prove seriously injurious to the private sector. Careful analysis of past and present efforts in this area is essential before further action is taken.

Generally, I am confident that this State can responsibly meet the challenge of plenty if we all share a strong sense of human compassion, recognize the real limitations of our future revenues, are sensitive to the frontier characteristics of our economy which call for unique economic development incentive and if we are careful in maintaining and enhancing the incredible natural beauty of our land.

“A State’s Destiny Deferred”

As fellow conferees Walt Furnace, Sandy Spencer, Herb Turner, Andrena Weston, Josh Wright and I listened to presentation after presentation describe the future wealth for Alaska, we wondered if a cursory understanding of presentations would lead a number of people to conclude that Alaskans could expect to enjoy a quality of life unparalleled in the history of our great nation. A number of alarming past and current indicators suggest decision makers may be inclined to make an erroneous and simplistic correlation that vast public wealth can be used to improve the quality of life for Alaskans by increasing government services. Additionally, as members of the minority community we are concerned that the euphoria over public prosperity may cause those same decision makers to forget that a segment of our society has not yet reached economic parity.

We are alarmed that our state’s destiny is being deferred by the indication that there has not been an improvement in the adverse relationship between state government and the petroleum industry (principal generators of state revenues) resulting from constantly changing, inconsistent and often times inequitable tax policies. A number of these policies serve as disincentives for increasing or maintaining present levels of exploration and production.

We are alarmed that our state’s destiny is going to be negatively impacted by the indication that planned and committed capital improvement projects have not been evaluated from the perspective of how the cost of maintaining these projects over their useful life will effect future (increase) operating budgets.

We are alarmed that our state’s destiny is being deferred by the indication that there is a lack of concerted effort to improve embryonic and primitive transportation systems. These improvements will be necessary if industrial growth is to take place in the future.

We are alarmed that our state’s destiny is being deferred by a proliferation of disclosure, reporting and conflict of interest laws that are perceived by many to be a “hassle” thus limiting the number of talented people who would consider public service. Having talented people seek public office and serve in administrative capacities will be of vital importance if billions of dollars are to be properly managed.

We are alarmed that our state’s destiny will be deferred by government promulgating policies and increasing expenditures in an attempt to provide citizens with more government services, perceived by a few to be in the public’s best interest could in essence have an opposite effect. “Welfare and/or dole” programs will ultimately rip at the fabric of the work ethic and create further dependency of a number of our citizens on government aid at the expense of their individual and economic freedom.

We support government programs that promote “Workfare” and serves as an economic stimuli in the private sector where five out of six jobs exist. Programs of this type will encourage industrial and commercial growth and is conducive to small and minority business development.

We believe one such opportunity for the state to assist in the promotion of “workfare,” exists in the construction industry by alleviating a major impediment to small and minority business development. Small and minority businesses have been prevented from entering the economic mainstream because of bonding requirements. We propose the state act as a self insurer on its capital improvement projects, of two million dollars or less. A similar program was utilized by Alyeska on the construction of the oil pipeline.

Between the period of 1976-78, 77% of all state construction projects were one million dollars or less. In isolated cases where a contractor may default and the possible increased cost of another contractor coming in to complete the work would be more than offset by the positive benefits of eliminating the ability of a few large contractors to set the cost of construction artificially high through their ability to secure bonding. Furthermore contractors will be in a position to bid a job thus insuring a more competitive price since the practice of large contractors brokering sub-work and raking their profit off the top would be eliminated.

We hope such a proposal will not meet with false cries of outrage from insurance lobbyists. In reality only a handful of agents are writing bonds for a few large contractors. These bonds are being placed with “outside” companies with no benefit to the Alaskan economy. It is envisioned such a program will develop a larger pool of indigenous Alaskan businesses capable of providing employment and generating tax revenue.

While we are very concerned that our state’s destiny of greatness is being deferred, we are still hopeful



Louis Overstreet
President, Alaska Black Caucus

that by utilizing the wisdom of all our people and more dedicated partnership efforts by government, private industry, labor, civic organizations and individuals will allow our destiny to be manifested.

“What Alaska’s Fiscal Policies Should Be for the 80s”

The effects of “all those oil billions” together with economic potential constraints and the costs of doing the public’s business in Alaska, suggest fiscal policies.

Because the money is there we are relying on oil income for nearly 90% of state expenditures. This is over \$3,000 per person per year in excess of ordinary tax revenues.

It would be a poor gamble to assume future oil production under state jurisdiction will be enough to make up for more than a minor part of the loss of income essential to cover state disbursements after Prudhoe Bay.

The cost is very high, at best, to try to operate full service government for 400,000 people spread around 375,000,000 acres, many in scores of towns isolated by long distances from each other and the large cities.

A goal of a “broadly based, diversified economy” is largely unattainable due to competitive disadvantages which, with few exceptions, preclude our processing and manufacturing finished products either for use or export.

Thus we are heavily oriented to production of resources, renewable and non-renewable, with processing to the extent necessary for marketing, but with further processing conditioned by economics.

Our experience with spending increases since 1970 dictates that mandatory spending controls be adopted. A ceiling at the current spending rate won’t reduce the present level of dependence on oil income.

The likelihood of massive cuts in public services is negligible. The state must initiate a tough and continuing review of operations to reduce inefficiencies and eliminate extravagances, but the savings will be a small part of the total budget.

The aggregate of all tax revenues, exclusive of oil production income, will continue to leave us almost exactly where we are now as to dependence on oil. And the likelihood of any tax increases to reduce the dependence is zero.

Growth in economic development, excluding oil production and a few exceptions, such as a billion dollar liquefaction plant and 70 workers — a pending prospect — will produce no improvement in level of tax returns to the state.

The state should not practice promotion of economic development — with its accompanying population increase — that requires subsidy of one kind or another to make both ends meet, as the net result is simply to increase the \$3,000 per person dependence on oil to pay our bills.

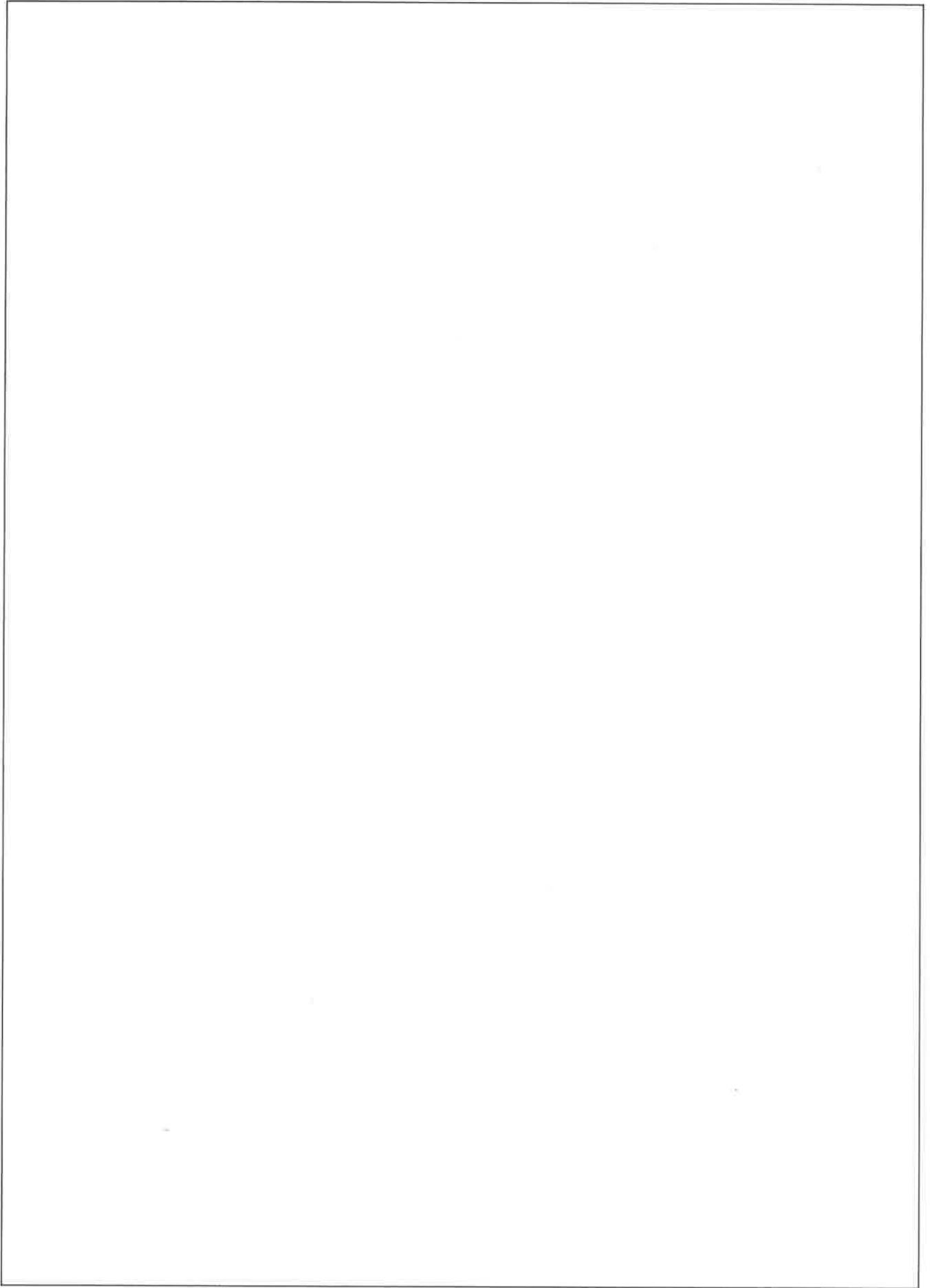
There will be opportunities for state involvement in infrastructure and hydroelectric developments that will pay off on an economically sound basis.

A start has been made with the Permanent Fund to build the new source of income — earnings. This is a major means to financial balance again and to a substantial source of revenue after Prudhoe Bay.

The facts of the economic conditions with which we are surrounded point to the urgent need to increase massively the commitments to the Permanent Fund of oil income. For the time being the oil income is adequate for this purpose. It is the only reliable, viable means to avoid the necessity of eventual devastating tax increases.



Harold Pomeroy
Vice Chairman,
State Growth Policy Council



“Celebrating Alaska”

Alaska - 1984 has established as its goals to celebrate the 25th Anniversary of Statehood: to decree that it is our year to come of age as a state; to dramatize the state's international position both as a destination and as a trading partner. Alaska - 1984 will increase worldwide understanding of the historical, cultural, and economic bonds among the peoples of the Pacific and the North. In short, to celebrate Alaska and Alaskans and the spirit of Alaska.

Alaska has an opportunity to utilize its surplus wealth to build a new economic basis for future stability, and Alaska 1984 provides such an opportunity to showcase Alaska and to enhance its existing industries: a much stronger tourism industry (both summer and winter), a tremendous growth in the building trade, a stronger base for retailers, and an increase in the service industries. It also means more attention focused on Alaska as an international trading partner which will strengthen key industries such as timber and fishing.

As evidenced by past World Class Expositions, large economic returns are generated for the state and communities sponsoring and hosting such events. The following is a conservative estimate of possible economic benefits to Alaska and Alaskans.

• Residual attractions in communities throughout Alaska	\$100 million
• In-place pavillion for port-fair use	20 million
• Other residual structures for post fair use (assuming only 50% of projected capital structures)	87 million
• Expenditures by visitors to Alaska (400,000 additional visitors, spending \$750 per person)	300 million
• Expenditures by visitors at the exposition itself	38 million
• Private investment in supporting facilities (restaurants, hotels, etc.)	75 million
TOTAL CONSERVATIVE ECONOMIC IMPACT	<hr/> \$620 million

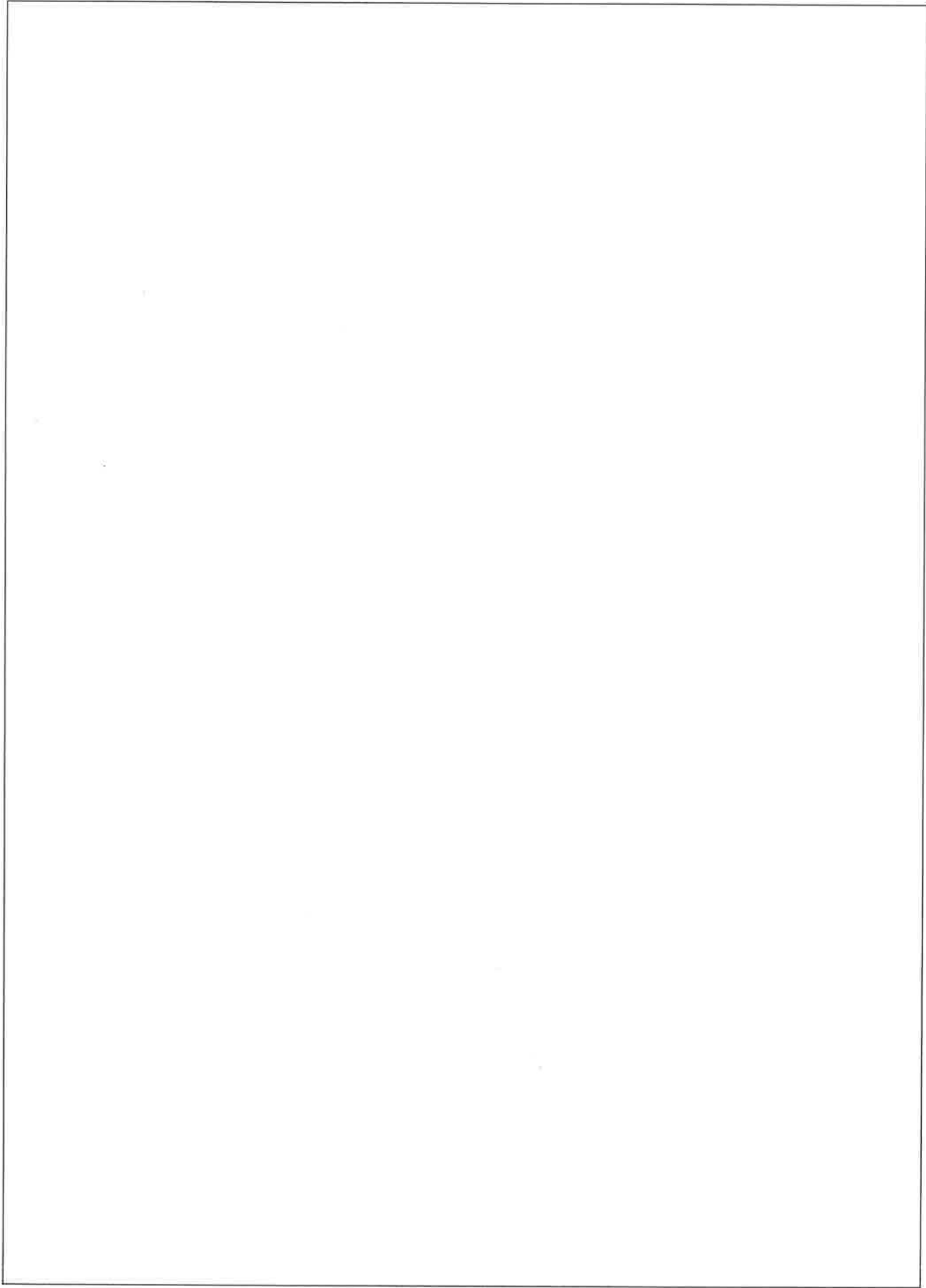
This represents an excellent return on capital investments made by both the public and private sector. More importantly, it means a stronger, more diversified economy; less dependence on a single industry to sustain our economy and a stronger basis for future economic growth and to reach Alaska's destiny as an international trade center with political neutrality and an economic independence.

Alaska - 1984 is a conservative, well-planned vehicle through which we can create add-on value to our resources and can create job opportunities for Alaskans on a residual basis; and the world will begin to look to Alaska as the cradle of innovation and expertise as well as a stable economic resource.

Alaska has the resources, the tools and the enthusiasm that can bring the true significance of our state to the country and the world. Alaska needs a vehicle to accomplish that goal and one in which all the citizens can participate and will be affected by it. Since symbolism is the key to an exposition, Alaska - 1984 is a positive effort to force us to establish a consensus of what we are and to establish goals for our future. Its lasting effects will not only be economic but moreover, a sense of pride that will remain for as long as Alaska exists. We have everything to gain and nothing to lose — let's do it right and together.



Robert N. Uchitel
Chairman, Alaska 1984



Acknowledgements

Common Sense for Alaska wishes to express our sincere appreciation to the following individuals, companies and entities whose support contributed to the success of "The Challenge of Plenty" event:

Volunteers

Jan Bomhoff
Nikkie Harbour
Danae Kroll
Len McLean
Donna Motter
Max Nalley
Rick Nerland
John Norman
Tom Soper
Bobbie Young

Media Panelists

Mayor Vincent J. O'Reilly
Joe Gallagher
Flipp Todd

Permanent Media Recording of "The Challenge of Plenty"

Anchorage School District Media Department
Charlie Cardwell, Director
Resti Bagcal
Kevin Hyatt
John LaFournaise
Bob Penzenik

KAKM Public Television
Karen Emerson, Director

Publication Cover Design

Keith Stump, C-K Communications

Editing Advice

Steven C. Levi
Monica Thomas, Alaska Council on Economic
Education

Publication

Aurora Publishing, Inc.

Special Appreciation is accorded:

Jeanne Peterson, Executive Coordinator
Common Sense for Alaska
for enabling the "Challenge of Plenty" to occur in a
highly professional manner.

— Executive Committee

