
**THE
ALASKA
DEVELOPMENT
BOARD**

*A
COMMONWEALTH NORTH
PROPOSAL*

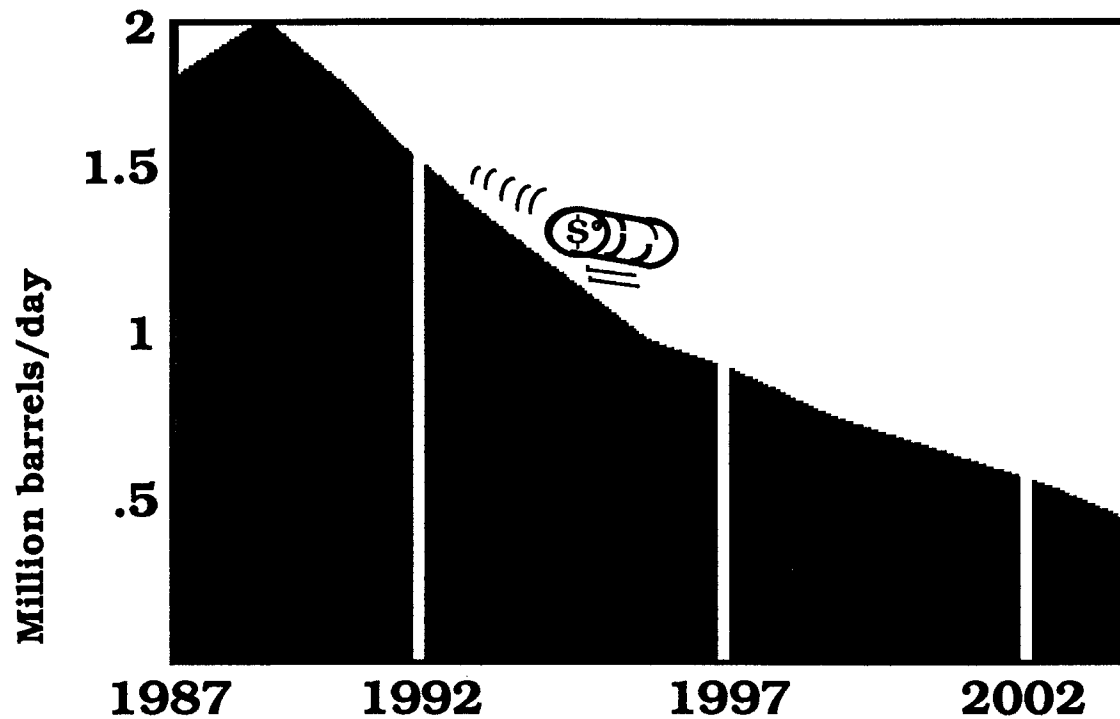
Needed:

**In-state investment in
revenue-generating projects
to diversify the economy.**

Why?

Prudhoe Bay will soon begin its decline.

**Estimated Production of
Alaska North Slope Crude Oil**



Statistics: Alaska Department of Natural Resources

Q. *Haven't we spent billions of dollars already on Capital Improvements?*

A. **The Alaska Development Board would only address Capital Investments not Capital Improvements.**

What's the difference?

- *Capital Improvements* add to the quality of life but do not directly improve the economy. In fact, they cost the taxpayers (or the state) millions of dollars a year for O&M-- operating and maintenance. Examples: schools, libraries and amenities.
- *Capital Investments* generate revenue, repay their cost, pay their own O&M, and facilitate resource development. Examples: ports, rail extensions and power projects.

Who says so?

There is... "striking statistical evidence linking the dearth of investment in public capital to the slowdown in private-sector productivity growth."

Business Week, August 29, 1988

Economic Viewpoint

ARE CRUMBLING HIGHWAYS GIVING PRODUCTIVITY A FLAT?

BY ALAN S. BLINDER



America's productivity growth rate is slipping, and a new study offers a surprising hypothesis: Our failure to maintain the infrastructure is a big factor

For years there has been much talk and hand-wringing—but little action—about the nation's crumbling infrastructure. Even Mussolini couldn't make America's trains run on time with our antiquated equipment and deplorable roadbeds. What air traveler has not suffered delays from inadequate airport capacity in a country that has not built a major new airport since 1973? Communities around the country halt construction because they lack sewer capacity, and many of our highways have more potholes than the Ho Chi Minh trail. Every now and then a bridge collapses, offering a chilling reminder that many are in dreadful disrepair.

America's failure to maintain and expand its public capital stock has inconvenienced all of us and imperiled some. That is sufficient reason to support greater investment in infrastructure. And now a new reason has emerged. David Aschauer, an economist at the Federal Reserve Bank of Chicago on leave from the University of Michigan, has unearthed striking statistical evidence linking the dearth of investment in public capital to the slowdown in private-sector productivity growth.

This finding will surprise those who see the public sector as the home of waste, fraud, and abuse. But it should also surprise those with a more liberal view, because much of the social value of infrastructure goes unmeasured. If my flight leaves on time because the airport is less congested, or if my back aches less because the roads have fewer potholes, I am truly better off. But data on gross national product will not record those gains. Nevertheless, Aschauer has found a strong and consistent correlation between GNP growth and public investment. His study suggests that our failure to maintain adequate growth in

The dilemma:

Since North Slope revenues began flowing, the bulk of capital spending has been determined through legislative horse trading or on a district basis, through the one-third, one-third, one-third approach. We have been rarely successful at taking a statewide view.

How established?

ALASKA PERMANENT FUND

Governor Appoints
Board of Trustees
Emphasizing Experience in
Finance, Investments, and
Other Business Management-
Related Fields

Board of Trustees
Directs the Activities
of the
Permanent Fund Corporation

OBJECTIVE

Invests for the Purpose of
Safety and Growth of
the Fund

ALASKA DEVELOPMENT BOARD

Governor Appoints
Board of Directors
Emphasizing Experience in
Designing, Financing,
Guiding and Operating
Major Projects

Board of Directors
Presents Projects to
Legislature and Governor for
Approval and Appropriation

OBJECTIVE

Invests for the Purpose of
Growth in the
State's Economy

How ADB will function:

Alaska Development Board solicits ideas from private sector and key agencies regarding in-state investments.

Alaska Development Board researches feasibility and whether projects are revenue-generating and merit state investment.

Alaska Development Board presents feasible projects to the Governor and the legislature for go/no go decision and funding/financing strategy.

How much will an ADB cost the state per year? What's the fiscal note?

- **Like the Permanent Fund, the staff will be small.**
- **Existing engineers, planners and resource specialists in DOT/PF, DNR, DCED and DEC will be utilized, as well as University and private sector talent.**

What kinds of investments are needed?

- Railroad extensions:

- Wishbone Hill
- Nenana to the Yukon
- etc.

- Airport expansion:

- Industrial parks to facilitate projects such as Federal Express

- Ports:

- MacKenzie Point
- Beluga
- Dutch Harbor expansion
- Fire Island

- Tourist/Recreation destinations:

- South Denali facility

- Industry-specific:

- Cold storage at Kodiak

How can we finance these projects when we are facing a budget deficit?

Answer:

- **Federal highway dollars can be utilized for roads, causeways, etc.**
- **The Railbelt Energy Fund, earmarked for capital projects, currently totals \$327 million.**
- **The Earnings Reserve Account contains \$591 million.**
- **Revenue and general obligation bonds.**
- **Creative strategies. (see next page)**

Creative Financing Strategies

A. Seward Coal Terminal

- State supplied \$4.3 million in grants for dredging and dock.
- City of Seward contributed \$500,000.
- With the assistance of the city, Suneel raised \$12 million through the sale of industrial revenue bonds through the Chemical Bank of New York for site improvements and machinery. Later Suneel spent an additional \$5 million.

B. Red Dog Mine

- The State spent \$3 million for initial studies.
- Cominco committed to spend \$250 million to build mine.
- AIDEA sold bonds for \$103 million to build state-owned road and port.
- Cominco will pay off these bonds plus a 6 1/2% rate of return through toll fees (Note: these fees will continue after bonds are retired).

C. Federal Express

- \$500,000 loan from Municipality of Anchorage to be repaid by Federal Express through "tax increment financing."
- State used \$1.8 million from Airport Revenue Fund for site preparation.
- Federal Express to invest \$10 million for building and equipment.
- 100 permanent jobs.

A BILL

For an Act entitled: "An Act relating to the Alaska Development Board."
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*Section 1. FINDINGS AND INTENT. (a) The legislature finds that

- (1) the missing element in the state's overall spending and investment strategy is a thoughtful but activist program to diversify the economy;
- (2) the major obstacle to diversification lies in the lack of basic transportation and power facilities;
- (3) revenue generating capital projects that can pay their own operating and maintenance costs and return original start-up investments to the state must be given preference over capital projects that improve the quality of life.

(b) The Alaska Development Board is created to research, study feasibility, and recommend construction of major revenue generating projects that will help diversify the economy. It is the intent of the legislature that only those projects be recommended for construction that have

- (1) an assured source of repayment of original construction costs;
- (2) the capacity to generate substantial revenue through tariff, rent, or user fees.

*Sec. 2. AS 39.25.120(c) is amended by adding a new paragraph to read:

(21) the executive director and staff of the Alaska Development Board.

*Sec. 3. AS 39.50.200(b) is amended by adding a new paragraph to read:

(49) Alaska Development Board (AS 44.19.300).

*Sec. 4. AS 44.19 is amended by adding new sections to read:

ARTICLE 14B. ALASKA DEVELOPMENT BOARD.

Sec 44.19.300 ALASKA DEVELOPMENT BOARD. (a) The Alaska Development Board is established in the Office of the Governor consisting of the commissioner of commerce and economic development, the commissioner of natural resources, and five members appointed by the governor. Appointed members of the board serve for six-year terms and receive per diem and travel expenses provided by law for members of state boards and commissions under AS 39.20.180. The appointed members must have professional experience involving a major public or private facility in one or more of the following areas:

- (1) financing;
- (2) construction;

- (3) project design; or
- (4) operation and management.

(b) The board may appoint an executive director and assign the executive director duties. The board may hire additional staff as necessary. The executive director and staff are in the partially exempt service.

(c) The board shall study the feasibility of constructing major capital projects and determine priorities for the construction of proposed projects based on the statewide value of those projects. The board may submit reports making recommendations regarding the construction of proposed projects to the governor and the legislature. If a report recommends construction of a project, the report must include an analysis of the benefits expected to be derived from the project and proposals regarding financing for the project. The board may recommend for construction only those projects that have a capacity to

- (1) provide a reasonable return on the state's investment in them;
- (2) generate revenue sufficient to cover operation and maintenance costs; and
- (3) help to strengthen and diversify the state's economic base.

Sec. 44.19.305. ALASKA DEVELOPMENT FUND. The Alaska development fund is created in the Department of Revenue consisting of appropriations to the fund. Unless otherwise provided in an appropriation act, money appropriated to the fund does not lapse. Money in the fund may be appropriated for the construction of capital projects recommended by the Alaska Development Board.

* Sec. 5. Notwithstanding AS 44.19.300(a), enacted in sec. 4 of this Act, initially appointed members of the Alaska Development Board serve the following terms;

- (1) one member serves for two years;
- (2) one member serves for three years;
- (3) one member serves for four years;
- (4) one member serves for five years;
- (5) one member serves for six years.

Goals:

- **Economic stability and growth.**
- **Accessing untapped resources to take up the slack as Prudhoe Bay declines.**
- **Drawing together public and private sectors to create jobs and strengthen the economy.**

Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. Non-partisan in nature, its purpose is to inject enlightened vitality into the world of commerce and public policy. As well as providing a forum for national and international speakers, working committees study critical issues facing the state and the nation and prepare well-researched proposals, such as this one.

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