

# COMMONWEALTH NORTH

## Putting Alaska's Assets to Work for Alaskans

**Approved by the  
Commonwealth North  
Board of Directors  
on January 20, 2004**

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## Study Group Charge

In 1998, Commonwealth North (CWN) assessed how well Alaska was managing the land grant transferred under the Statehood Compact and the various enterprises capitalized with revenue derived from this land grant. Specifically, the study looked at whether the state’s returns on these assets could be improved through better management strategies and structures.

That study identified successful models such as the Alaska Housing Finance Corporation, Alaska Permanent Fund Corporation and Alaska Industrial Development and Export Authority, among others, that were generating returns both in terms of benefits to individual Alaskans and for the collective good through financial contributions to the General Fund. These public corporations or Government Sponsored Enterprises (GSEs) were established by statute and capitalized with the income from development of Alaska’s resources.

The Government Sponsored Enterprise model has seen several notable successes in Alaska. However, the study identified a number of ways for GSEs to operate even more effectively to improve returns. Additionally, the study suggested that the GSE model could be used to put more of Alaska’s assets into production to achieve returns. Putting Alaska’s assets to work more effectively can enhance the state’s revenue stream to the General Fund, as well as produce other benefits for Alaska.

In this follow-up study, the Commonwealth North Study Group was asked to:

- assess whether the recommendations made in the earlier study have been implemented and whether they resulted in more effective management and accountability;
- explore additional opportunities for using the GSE model to improve asset management and returns; and
- suggest a roadmap to implementation that will result in better financial and beneficial returns on Alaska’s assets.

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# Executive Summary

This report is essentially about money, and how the state of Alaska can earn more of it by better structuring the management of its assets for the long term. It is also about improving regulatory and financial oversight.

Alaska has proven management models that have been successful in serving both a public purpose as well as producing revenue. These models include the Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, and the Alaska Permanent Fund Corporation, among others. These Government Sponsored Enterprises (GSEs) are established in statute, operate as businesses and are accountable to their shareholders, the people of Alaska. This report recommends expansion of the Government Sponsored Enterprise business model.

In addition to the financial benefits that can accrue to the state from this approach, the state's regulatory oversight responsibilities can be better executed when separated from and applied to a third party public corporation, rather than through the same or sister line government agencies.

Alaska is different from other states in two fundamental ways:

1. At statehood Alaska was given 104 million acres plus mineral rights with the expectation that this huge amount of land could be converted into a sustainable economic base;
2. The economic evolution of Alaska's land grant into financial assets has produced a concentration of wealth in the hands of the state that eclipses that of the other United States.

As Alaska works to attain a sustainable economy and a reliable stream of revenues, it needs to clearly articulate its goals. The central focus of this report is on "financial returns." These are funds paid to

the state Treasury to meet the state's overall needs. However, "beneficial returns" are also important. These returns benefit individuals directly through program subsidies or indirectly through job creation and business activity. Identifying and keeping track of the balance between these two types of returns is at the heart of our recommendations. Our focus is on long-term returns. In fact, this report advocates for development of a perpetually sustainable economy.

This report builds on the work of the 1998 report: "Alaska's Asset Portfolio, Managing for Maximum Return." Please note that the following summary of recommendations is not self-explanatory, and needs to be considered in conjunction with the data and background presented in this report.

## Recommendations

1. Enhance Alaska's revenues by expanding the successful Government Sponsored Enterprise model. Specifically, establish an Alaska Land and Natural Resource Management Trust to maximize investment and financial returns from Alaska's land grant holdings.
2. Enhance oversight, coordination and asset allocation strategies through the creation of an Alaska Commons Enterprise Group (Group) charged with reporting to the people regarding financial and beneficial performance of the state's GSEs and recommending strategies for long-term investments and returns.
3. Engage Alaskans in the financial performance of all the state's enterprises, not just the Permanent Fund. Amend the current dividend program to include consolidated net returns from all Alaska GSEs. This program could include a community dividend and is not inconsistent with the current Permanent Fund endowment proposal.

# Introduction

During the Alaska statehood debate, it was recognized that the state's population would likely never have the critical mass to finance government services through conventional means employed by other states, primarily per capita taxation. In recognition of the need for Alaska to have means to produce its own revenue, the state was granted 104 million acres of land and mineral rights to significant acreage on federal lands. From this, it was felt Alaska could build and sustain an economy and pay for necessary government services.

This experiment has proven successful. Alaska has supported its economy, created jobs and financed government services from the revenues generated from putting to work the land grant conveyed by Congress at statehood. For the past twenty-five years, the vast majority of state revenue was generated from oil and gas resources extracted in partnership with the private sector.

The revenue from the land grant and natural resources has been used in three primary ways:

1. To fund general state and local government.
2. To capitalize infrastructure development.
3. To capitalize or subsidize Government Sponsored Enterprises such as the Alaska Housing Finance Corporation (AHFC), Alaska Industrial Development and Export Authority (AIDEA), the Alaska Permanent Fund Corporation (APFC) and the Alaska Railroad Corporation (ARR), among others.

However, the direct revenue flow from oil and gas into the General Fund has diminished over the years, producing what is commonly known as the fiscal gap. As a result, the state is looking for new revenue from other sources to meet its needs. One source of additional revenue has been to have the state's enterprises share their earnings with the

General Fund by way of "dividends." Several GSEs have been doing this for a number of years.

This report builds upon the research and recommendations of the 1998 Commonwealth North Study: "Alaska's Asset Portfolio, Managing for Maximum Return" (Assets I).

Assets I concluded that Alaska's GSEs could be more effectively managed to increase their potential to produce returns. The study concluded this could be done by:

- Providing more effective management accountability for revenue and returns.
- Clarifying roles and responsibilities between program managers and elected policy makers.
- Measuring and disclosing performance to assure that the public is aware of the total returns produced and how those returns are allocated.
- Managing the state's assets as a portfolio to assure that resources are appropriately allocated to achieve long-term sustainable revenue and return objectives.
- Paying returns to the General Fund when revenues exceed operating costs and appropriate reserves.

These findings and recommendations from Assets I remain valid and CWN has reaffirmed them. In fact, a great deal of progress has been made in satisfying the management principles contained in these recommendations.

This report builds on the conclusions of Assets I and recommends practical ways to use Alaska's enterprises to create or enhance a sustainable supplemental revenue stream to the state of Alaska.

## *Why does Alaska need to rethink and restructure how it manages its assets?*

The economic future of Alaska is in a highly precarious position.

Both oil and fishing revenues are half of former peak production. The timber industry is hidebound by federal regulations. Other natural resource revenues are marginal. Tourism continues to be strong, but is dominated by large corporate cruise and tour companies that contain most of the revenue generated within their integrated operations.

Because of the “Alaska disconnect” the state collects very little revenue from workers who are consuming state and local government services. The “Alaska disconnect” is a concept that describes the lack of correlation between job creation and tax revenue. As a consequence, both state and local governments are running deficits that are beginning to impact essential services, including those like education that are the key to Alaska’s future. The Constitutional Budget Reserve, the state’s cash buffer, is being eroded every year with its depletion in sight.

The situation is grave and urgent.

However, Alaska still has substantial tools to help work its way out of this dilemma. It has a \$27 billion Permanent Fund derived from converting oil wealth into financial wealth. It has the successful GSE models already discussed that have been capitalized by natural resource revenue. It has a substantial private and public infrastructure that can physically enable future economic growth. It has an educational system that, while needing

integration and continued funding, is well positioned to lead Alaska into the future. Huge federal spending in Alaska has been an underpinning of our economy, but will not continue forever.

What Alaska needs now is a way to link its citizens more effectively to the resource potential of the commons.

Indeed, the Alaska Constitution mandates that the state’s land and resources be used, developed and conserved for maximum benefit of its people. This mandate has not been fulfilled.

It is important to note that the current condition is not a reflection on any specific administration. The dynamics of the governmental system, combined with lots of money, have conspired to avoid contending with deep-seated fundamental structural issues. Foremost among these has been the failure to recognize the obligations of land grant ownership.

## *What are Alaska’s assets?*

Alaska’s assets are its land, labor and capital.

- Alaska received 104 million acres plus mineral rights on federal lands to provide an economic base to make Alaska economically sustainable.
- Alaska’s labor is its population—widely distributed across a vast landscape, but becoming increasingly urban. While regional differences exist, Alaska’s population is better educated and younger than national averages. Recent Commonwealth North studies have focused on the labor side of the equation: the “Urban Rural Unity Study, U.R. US,” “The University of Alaska: A Key to Alaska’s future, A time for ALL to invest” and “Alaska’s Jobs for Alaska’s People.”



- Alaska is fortunate to have converted meaningful amounts of revenue from natural resource development into a substantial capital base. Investments in the Alaska Industrial Development and Export Authority, the Alaska Housing Finance Corporation, the Constitutional Budget Reserve, the Alaska Railroad Corporation, the Alaska Aerospace Development Corporation and the Alaska Permanent Fund have resulted in tens of billions of dollars of financial equity for the state.

Commonwealth North believes that changes to the way Alaska manages its land and capital can help optimize the state's return on these assets over time. These changes, in conjunction with workforce development, can result in a coherent, coordinated and sustainable asset portfolio.

## *What makes Alaska's government obligations different from other states?*

Alaska is different from other states in two fundamental ways:

1. At statehood Alaska was given 104 million acres plus mineral rights with the expectation that this huge amount of land could be converted into a sustainable economic base.
2. The economic evolution of Alaska's land grant into financial assets has produced a concentration of wealth in the hands of the state that transcends other parts of the United States.

A crucial underlying concept in the management of Alaska's assets is the distinction between Alaska's

general government, regulatory and proprietary responsibilities. As with the other 49 states, Alaska government has the obligation to provide for the public welfare. This includes basic government services such as education, public safety, transportation, etc. Additionally, like other states, Alaska has regulatory functions to protect the public interest for safety and environmental concerns.

However, Alaska also has an obligation to assure that the statehood land grant and financial assets derived therefrom are used effectively for the purposes for which they were intended: to build an economy and fund necessary government services. These "proprietary," or ownership, functions of managing the state's assets include the obligation to take affirmative steps to optimize their value over time.

Although Alaska's circumstances and responsibilities may be unique, it has structured the management of its natural resource assets in a traditional way, through a traditional regulatory government structure. Government agencies that have responsibility for these assets combine both the regulatory and the proprietary functions. Thus, these agencies may be responsible for facilitating development of a resource and generating income from it, while at the same time being charged with oversight and regulation of that development.

A fundamental conclusion reached by this Study Group is that separating the two functions can be an effective way to enhance both activities at once, by focusing those charged with development activities, while clarifying the role of those charged with regulation and oversight.

## *What is a return?*

There are two types of returns produced by state assets. Financial returns are those produced as earnings on operations. Beneficial returns are those

that inure to the users of the product or service provided. The following definitions are quotes from the previous CWN Assets I study:

- **“Beneficial returns** benefit individuals directly through program subsidies, or indirectly through the multiplier effect of job creation and business activity. Beneficial returns serve a public purpose by providing goods and/or services otherwise unavailable or unaffordable to meet a perceived public need.” Examples of beneficial returns are affordable housing for Alaskans provided by the Alaska Housing Finance Corporation or the ability to transport goods to remote residences by the Alaska Railroad.
- **“Financial returns** are paid to the Treasury and then appropriated to meet the state’s needs. They directly contribute to the state’s solvency. Through the appropriation process, these returns are also used to sustain management operations.” Examples of financial returns are the dividends paid to the General Fund by the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority.

It is in the public’s overriding interest to maximize both types of returns over time. Government must manage its assets based on long-term, in fact, unending, life cycles. This obligation applies to financial as well as natural resources, and it has far-reaching consequences for planning and development.

For example, if the goal is to generate maximum immediate earnings from a resource such as timberlands, clear cutting at minimum expense might yield the most money fastest. However, such an approach would almost certainly do damage to the long-term value of the resource, and destroy other values such as scenic and environmental values. Sustainable financial and beneficial returns would be compromised in exchange for unsustainable short-term gain.

By contrast, if the timber were cleared selectively, with access roads laid out to be compatible with future development, or with future regeneration of the forest in mind, the land would be able to produce additional returns in the future through forest re-growth, land sales, leasing or by remaining aesthetically and environmentally attractive. The immediate earnings might be less, but the total return over time could be more. Recently the Alaska Mental Health Trust Authority did exactly this with its land in Yakutat.

As for financial resources, the state must also manage its investment portfolio to provide for both short-term income and growth for the future. The most notable example of this is the asset allocation responsibilities of the Trustees of the Alaska Permanent Fund Corporation.

This notion of “portfolio management,” while most commonly employed in investment funds, should be applied to the entirety of different types of assets owned by the state of Alaska. The Permanent Fund Trustees constantly monitor the balance between stocks, bonds, real estate and cash, as well as the smaller divisions within each of these broad asset categories. Similarly, almost all for-profit corporations constantly analyze their lines of business, rates of return on their different investment categories, and life cycles thereon to assure a continuity of cash flow in the future.

However, the state of Alaska, in the aggregate, has seldom, if ever, taken a long-term strategic approach to management of its financial, human and natural resources. Application of this approach can endow Alaska with a future economic base that would exist after its finite natural resources are exhausted.

## *What is a GSE?*

A Government Sponsored Enterprise (GSE) is a legal entity with a public purpose created by statute. It is governed by a board of directors or



trustees appointed and/or designated by the executive branch or by statute.

Examples of GSEs at the national level include: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Resolution Funding Corporation and the Student Loan Marketing Association. In Alaska, they include the:

- Alaska Housing Finance Corporation
- Alaska Industrial Development and Export Authority
- Alaska Railroad Corporation
- Alaska Permanent Fund Corporation
- Alaska Aerospace Development Corporation
- Alaska Student Loan Corporation
- Alaska Municipal Bond Bank
- Alaska Energy Authority
- University of Alaska
- Alaska Mental Health Lands Trust

There are numerous reasons to consider further application of GSEs as a way to generate revenue and manage assets more effectively:

- The GSE structure heralds a fresh financial and business discipline that can create conditions for opportunity in new areas.
- Alaska needs a better means of diversifying its revenue stream...one that becomes more independent of oil and gas income. This can best be accomplished by turning to tried and true business models, not through more regulatory government policies.
- Alaska benefits from greater consistency and longevity of its management and leadership cadre, creating better opportunity to transition from a reactive style of short-term tactics to one highlighted by thoughtful long-term strategy.

- Long-term professional management continuity promotes stability and confidence among private business partners and lessees.
- Enhanced business performance of GSEs can expand the state's General Fund pool and improve government services.

Because GSEs are established to serve a public purpose, they are subject to multiple influences in addition to the policies established by their boards of directors. Unfortunately, these competing influences can adversely impact the performance of the GSE. Beneficial returns may be affected by the need for financial returns, and vice versa. Therefore, it is important that there be a balance between the two, and that there be a mechanism for reaching this balance.

Currently, both the legislative and executive branches have some responsibility for determining this balance. However, the lines of accountability and responsibility are vague. As a result, decisions regarding how to balance these often-competing considerations are made piecemeal, usually biased toward immediate political or budgetary needs. While financial return benchmarks may not ultimately determine a particular decision, a responsible decision cannot be made without considering them.

GSEs must manage short-term returns, long-term returns, and the balance between beneficial returns and financial returns, while juggling various stakeholder groups and political constituencies. In the few cases where the balance of these two returns cannot be reconciled, it can fall to the courts to make those decisions.

Despite these acknowledged shortcomings, they are minor. Government Sponsored Enterprises clearly provide a superior alternative to asset management by regulation...the method used by line government departments.

The biggest opportunities to increase returns result from the practical application of the principle of segregating the regulatory and proprietary functions of government. This is a significant change in how the state conducts its business. Regulators will be able to do a better job of regulating and protecting the public interest if they can focus on logical and timely interpretation of laws and regulations. Resource managers will be able to focus on entrepreneurial ways to maximize long-term returns, while dealing with state regulators like any other private corporation.

Alaska will never be independent of its need to collaborate and cooperate with its major landowner, the federal government. Alaska will never be independent of the inter-relationships between state and federal governments with respect to traditional government programs. However, Alaska can be better empowered to exercise firmer control over its lands, resources and other assets in order to benefit the state and its people.

## *What principles should govern the structure and operations of GSEs?*

Alaska's GSEs fall into four categories, each with its own set of parameters for return on capital, amount of capital needed, dividend potential to the General Fund and beneficial returns to stakeholders. They are:

- a. An **"Operating"** GSE that runs a business with operating expenses and capital requirements, such as the Alaska Railroad Corporation.

- b. An **"Investment"** GSE that manages money, such as the Alaska Permanent Fund Corporation.
- c. A **"Financing"** GSE that allows for lower cost financing, such as AIDEA or AHFC.
- d. A **"Management"** GSE charged with maximizing the long-term financial returns of a particular asset, such as the Alaska Mental Health Trust Authority.

Certain principles should be applied to all GSEs including:

1. GSEs should utilize clear and consistent financial reporting based on Generally Accepted Accounting Principles (GAAP).
2. GSEs should be entrepreneurial in nature and outlook. They should have relative independence to make management decisions that will permit them to achieve measurable goals.
3. GSE management should be accountable for its success or failure, and be answerable, through its board, to its owners (the citizens of Alaska) for meeting its goals.
4. GSEs should serve a specified public purpose.
5. GSEs need adequate capital investment and reinvestment to achieve their missions over time.
6. GSEs should have clearly defined Return on Investment (ROI) expectations, which should include the value of beneficial returns.
7. Revenues in excess of operating and capital requirements of the GSEs long-term plan should be available as financial "dividends" to its owner, the state of Alaska.
8. GSEs should have the flexibility to achieve their goals. They should not be subject to the restrictions of line government agencies for

administration of their operations, particularly in the areas of personnel and procurement.

9. GSEs should interface with other government departments in the same way and on the same terms as a private entity. They should not receive any advantage or dispensation in their dealings with the regulatory arm of the state.
10. GSEs must be subject to appropriate oversight both individually and as part of the state's overall business portfolio to assure the appropriate balance of investment, and of beneficial and financial returns.
11. GSEs should be given incentives to leverage efforts by working cooperatively with other GSEs and with other governmental agencies to accomplish goals.

## *What is Portfolio Management and why is it important?*

Investing fundamentals emphasize the need for asset allocation strategies. Simply stated, any investor, whether an individual or a holding company, needs to look at the totality of assets and determine how to best manage them for the greatest overall return over time.

There is currently no means or mechanism for the state of Alaska to achieve this overview of its asset management strategies. In fact, reporting and performance of the state's assets are "siloed," with each enterprise reporting vertically and independently. While there is informal coordination through the budget and appropriation process, a comprehensive look at how best to

invest, reinvest and extract value is essentially done on an ad hoc basis.

The dynamics of managing assets as a portfolio require a coordinated, consolidated and comprehensive approach to state assets and how best to use them to greatest advantage. Currently no entity measures or plans for the long-term cumulative economic impact of Alaska's substantial collection of investments, natural and human resources, including its GSEs.

The best example of the value of portfolio management and asset allocation is the overwhelming success of the Alaska Permanent Fund. The Fund's trustees are charged with determining how best to invest the assets into appropriate categories to achieve the greatest returns over time. This strategy has served the state and Alaskans well. These same principles can be applied to state's entire portfolio of financial and land grant assets.

In looking at the state's assets, a coordinated oversight of asset management can result in better long-term strategies for reinvestment, timing of business opportunities, capital improvements and revenue extraction. Consolidated reporting would also provide significant improvement in overall understanding by the state's shareholders (its citizens) of the value and contributions of these assets to the state's overall economic health.

In addition to the value derived from more effective investment management strategies, efficiencies can also be achieved through collaboration between enterprises. Capitalizing on the expertise and operational capabilities of one another's resources, each enterprise can operate at maximum levels of productivity.

## Findings

While the findings drawn by the Study Group generally represent a consensus, there are always differences in perspective and opinion. Findings were drawn based on interviews with present and former officials, legislators, and executive directors of various government sponsored enterprises, as well as in-depth discussions among the Study Group participants.

The Study Group was charged to:

**Assess the recommendations made in the earlier study on asset management to see whether they resulted in more effective management and accountability.**

The Study Group was surprised by how much has been accomplished since 1998, consistent with the earlier study's recommendations, specifically as they related to GSEs. Professional management has provided consistency in leadership, there are better standards of accounting and accountability, and dividend formulas have been revised and are paid to the General Fund.

One of the principles outlined in the Assets I study was the importance of separating the regulatory functions from the development functions within the same entity. It was particularly timely to see recent headlines discussing that very principle in management change being considered by the Securities and Exchange Commission and the New York Stock Exchange.

Another recommendation from Assets I addressed the need for appropriate and coordinated oversight of these entities on a portfolio basis. Headlines regarding Congressional review of the oversight of the federal GSEs Fannie Mae and Freddie Mac have also been in the forefront.

This is not to say that the Assets I study was ahead of its time in making these recommendations, but

rather a realization that these principles simply make good common sense. It makes the timeliness of this report all the more pertinent to see that other institutions, both governmental and private, are addressing similar management and corporate governance issues.

**Explore additional opportunities for using the GSE model to improve asset management and returns.**

Based on the successes seen in the effective management of assets in a GSE model, it was evident that this approach could be used to create other opportunities. It is important to note that there have also been disappointments in the use of the GSE structure. Some of the problems have been the result of "mission creep," or evolving away from core competencies. Alternatively, failure can result from a mission not clearly defined or expectations not explicitly stated (see Assets I).

However, successes exceed disappointments. If the lessons learned from prior mistakes are coupled with the successful features of ongoing enterprises, the GSE as an asset management tool is indicated.

The most obvious and potentially lucrative opportunity lies in the management of Alaska's land and mineral resources. It was emphasized during discussions that much of the asset management now done through the Department of Natural Resources works exceedingly well, especially as it pertains to oil and gas development.

However, it was noted that by incorporating these functions into an enterprise model, this expertise can be leveraged to the state's advantage. Marginal income received from a more entrepreneurial effort in land and mineral uses could also contribute to the state's fiscal health. The model most commonly used to illustrate this potential is the management structure utilized by the Mental Health Lands Trust.

Suggest a roadmap to implementation that would result in better financial and beneficial returns on Alaska's assets.

While Commonwealth North analyzes policy issues and proposes recommendations, the road to implementation of public policy is of necessity through the political process. Clearly, to chart that path to success means to engage both the public and elected leadership in the practical benefits of change.

Change for change's sake is nonproductive. However, we believe in building on the successes achieved by GSEs such as the Alaska Permanent Fund Corporation, the Alaska Housing Finance Corporation and the Alaska Mental Health Trust Authority, among others. Using such examples the state and its citizens can benefit from financial and beneficial returns in a more direct and tangible way.

The cornerstone of any change in public policy is to convincingly and compellingly convey the value of the policy, both in terms of what it will achieve for the public welfare, as well as for the various affected stakeholders. Careful consideration has been given to the recommendations offered herein and we believe that, on balance, it is in the public and financial interests of the state to move expeditiously toward implementation.

We therefore strongly advocate that the roadmap to our state's financial security includes implementation of proven GSE models that have achieved notable success for Alaska. We also support preserving those systems and processes currently in place that are effective and efficient and free from conflict. If this is done, we believe the state will robustly fulfill its land grant management obligations to Alaskans and Alaska's future.

# Recommendations

The goal of the following recommendations is to shift the management of Alaska's assets to a sustainable long-term business model. Indeed, the Alaska Constitution mandates that the state's land and resources be used, developed and conserved for the maximum benefit of its people.

## Recommendation One

It is the recommendation of Commonwealth North that the state **expand the use of the Government Sponsored Enterprise** model as an effective means to generate income while serving the public purpose. Specifically, we believe the highest potential for maximizing income opportunities lies in using this model for more effective management of its natural resource assets. Therefore we propose the following:

### The Alaska Land and Natural Resources Management Trust

#### Mission

On behalf of the citizens of Alaska, fulfill Alaska's constitutional mandate to provide maximum returns consistent with public purposes from land and natural resources owned by the state of Alaska. Promote public understanding and accountability for the returns generated on these assets.

Created along lines similar to the Alaska Mental Health Trust Authority, duties and responsibilities are to:

1. Provide oversight and coordination for Alaska's developable land with respect to oil, gas, minerals, timber and other potential revenue generating activities.
2. Maximize state revenue from Alaska's natural resources on a sustained, perpetual basis by managing lands and resources as a coordinated portfolio of assets.

3. Return a dividend to the state from net income of the Trust's operations. Maintain all current Constitutional and statutory transfer requirements to the Alaska Permanent Fund.
4. Implement projects only upon a finding by the Trust that a project will provide positive financial and/or significant beneficial returns to the state and that a project is economically advantageous to the state (see the similar provision for AIDEA at AS 44. 88.095).
5. Keep lands under the jurisdiction of the Trust subject to all regulations and permitting requirements per the Alaska Lands Act, just like other state lands. Note that these regulations include the ability to negotiate sales and leases rather than competitively bid them when it is found to be in the best interest of the state.
6. Provide annual reports and audited GAAP statements to the governor, legislature and the public regarding its activities and returns.
7. Consult with appropriate regional officials on projects. This ensures local input regarding natural resource actions that may have a significant impact on a particular community. (See AS 44.88.095 (e)).

## Structure

The structure of the trust would be a board of trustees consisting of the commissioners of Natural Resources and Community and Economic Development, as well as a designated number of public members. The governor would nominate trustees for staggered five-year terms and removable only for good cause. The nominees would be subject to approval by the legislature. For administrative purposes, the trust reports to the public through the Department of Natural Resources.

## Advantages

First, it is similar to other successful Alaska business enterprise models.

Second, it provides for and promotes decision-making by the Trust based on long-term financial and strategic goals. Because the enabling legislation requires an initial determination as to the financial viability of a project, the Trust places the proper focus on financial returns. A project must meet the criterion of making good economic sense before the question of other beneficial returns such as "job creation" are considered.

Third, the structure of the Board provides for more independent and business based decision-making. Trust operations span administration or legislative terms to enhance decision making for the long term.

Fourth, current Constitutional or statutory payment requirements to the Permanent Fund from natural resource royalties would not be affected. Additionally, best practices for land and resource management and leasing should be transferred with minimal disruption from the Department of Natural Resources to the Trust, thus utilizing existing expertise.

Finally, one of the major benefits will be supporting a long-term professional staff that can develop and implement a strategic vision for natural resource development in Alaska. Maintaining sound strategy will provide a framework for more effective short-term tactical opportunities.

## Recommendation Two

**Create a system of portfolio management for all of Alaska's assets that maximizes financial and beneficial returns of the total commons on a perpetual and sustainable basis.**

Specifically, we recommend establishment of an **Alaska Commons Enterprise Group** consisting of representatives of Alaska's GSEs and members of the public.



## Mission of the Alaska Commons Enterprise Group

On behalf of the citizens of Alaska, fulfill Alaska's constitutional mandate to provide maximum returns consistent with public purposes from the land and financial assets owned by the state of Alaska. Promote public understanding and provide accountability for the returns generated on these assets. The Group's authority does not preempt any enabling statutes for existing GSEs, nor does it preempt case law or traditional regulatory functions that remain with various departments of government.

The Alaska Commons Enterprise Group would also work to develop an education and communication program to assist the public, legislators and key government and industry leaders to better understand the role of Government Sponsored Enterprises and their contributions to the financial health of the state.

## Structure

The Group is an independent oversight board, established in statute, and accountable to the governor, legislature and people of the state of Alaska.

## Composition

The Board shall be comprised of the chairpersons of each of the state's Government Sponsored Enterprises (at this time, AHFC, AIDEA, ARR, APFC, AADC, UA, AMHT, AEA, ASLC and subsequently, the Alaska Land and Natural Resources Management Trust). Additionally, there will be three public representatives in staggered five-year terms, with termination only for cause. Public representatives will be nominated by the governor and confirmed by the legislature. GSE chairpersons shall serve concurrently with their terms as GSE chairs. The Director of the Office of Management and Budget shall serve as a non-voting advisory member of the board.

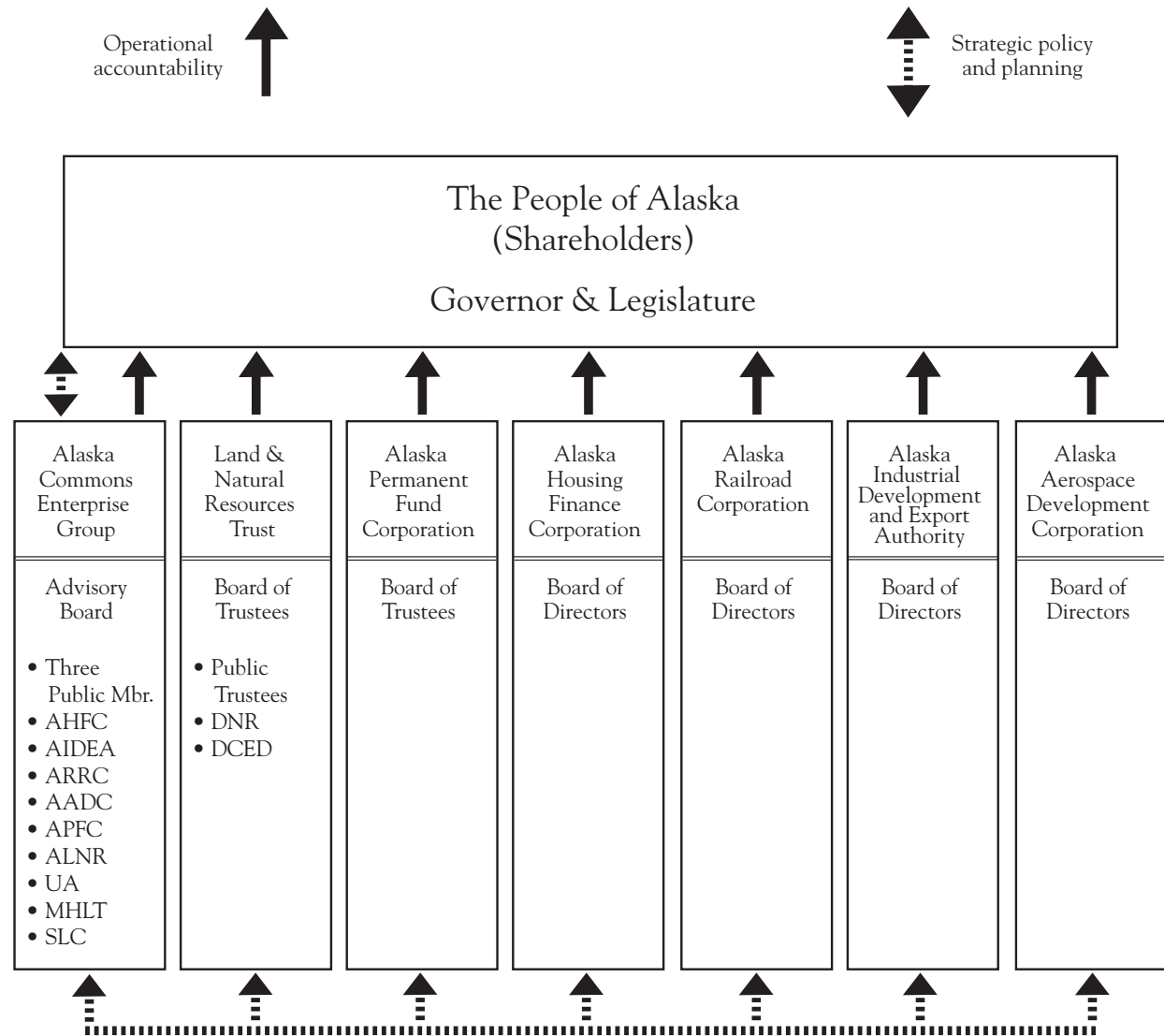
## Oversight

The Group reports to the legislature, governor and public at least annually. For administrative purposes, it shall report through the Office of the Governor.

## Duties and Responsibilities

1. Assist the administration and legislators with information and policy guidance needed to accomplish their oversight responsibilities.
2. Provide the governor, legislature and the Alaska public annual consolidated financial statements and report financial and beneficial performance, mission goals and overall return on investment for all of Alaska's Government Sponsored Enterprise businesses.
3. Identify and balance between beneficial and financial returns.
4. Develop and adopt rates of return and performance expectations to evaluate asset management operations.
5. Make recommendations to the governor and legislature regarding risk, debt and capital requirements.
6. Recommend opportunities for investment in and leveraging of GSEs as appropriate.
7. Recommend appropriate reinvestment and financial dividend levels for GSEs.
8. Cross-fertilize options among GSEs. Coordinate the collaboration between GSEs to maximize expertise and resources.
9. Maintain a long-term perspective that produces maximum returns over time for both current and future generations.
10. Maintain an ongoing economic development plan for Alaska.

## GSE Reporting Structure



### Authority

The Alaska Commons Enterprise Group shall adopt and implement measures to determine the financial and operational performance of Alaska's portfolio of assets. Its authority shall rest on its ability to analyze, monitor and recommend policies, procedures and investment goals to the public and government.

### Staffing

The Alaska Commons Enterprise Group Trustees may hire an executive director, and other appropriate staff or contractors as necessary to carry out its responsibilities.

## Funding

Funding for the Alaska Commons Enterprise Group shall be appropriated from the General Fund.

## Recommendation Three

Engage the public in the economic performance of the state's assets by making citizens direct stakeholders in the financial success of the assets.

Specifically, Commonwealth North recommends all GSE net earnings, to the extent permitted by law, be pooled and that the citizen dividend program be amended to include the combined financial performance of GSEs, as well as the Permanent Fund.

The Study Group has a strong intuitive sense that if Alaskans could benefit directly from increased earnings of the GSEs, that they would develop a personal interest in GSE performance. That personal interest could result in greater political support for long-term effective management of the GSEs, thereby helping guarantee their future and shoring up the underpinnings of an ongoing economy. The obvious example of such a linkage is the Permanent Fund Dividend.

Creating a joint pool of earnings from all enterprise and investment entities such as the Permanent Fund and GSEs would focus public awareness on all avenues of potential revenue. If dividend distributions were made from a combined account citizens would react more like shareholders and expect appropriate returns on their assets and appropriate levels of investments in the GSEs to maintain revenue streams.

This approach could be developed in conjunction with a community dividend program and is compatible with the Percent of Market Value (POMV) endowment proposal under consideration for the Permanent Fund.

# What it will take to implement these recommendations

The recommendations contained in this report are commended to the Commonwealth North membership, the public and state elected leadership for consideration and implementation. The recommendations are best viewed together as an integrated plan, but they are separable actions the state can take to improve the management of its assets. To implement the three primary recommendations, individual legislative action is recommended.

- The study's first recommendation, **establishing a Land and Natural Resource Management Trust**, will require authorizing legislation. Many models are available from which to draw, including the authorizing legislation establishing the Alaska Mental Health Lands Trust, Alaska Housing Finance Corporation and Alaska Industrial Development and Export Authority. Using the best and most effective language and powers from those legislative models will facilitate legislative development, assure a result that incorporates best practices, and instill public confidence in the resulting organization.

It is our hope that the principles associated with recommendation one, that is, using the public corporation as a framework for better managing the state's assets, will also be applied to management of other asset categories. Such additional corporations would then be integrated with the leadership of the Alaska Commons Enterprise Group outlined in the second recommendation.

- The second recommendation, to **establish an Alaska Commons Enterprise Group** to coordinate and recommend strategic direction for management of the state's corporate assets, will also require legislative action for empowerment. While in theory this body could be the result of an executive order from the governor to establish a working group, it is believed that only through statutory authority will the group be able to sustain the long-term strategic value envisioned in this report.
- Recommendation three realigns the income flow from management of the state's assets. This **consolidated earnings account** can then be allocated for the purposes determined. Again, we believe that to accomplish the goal of this recommendation, to better engage the public in the state's return on assets, this income flow and distribution should be established in statute.

The means to public policy implementation is the political process. Public debate and thoughtful consideration by our elected leadership in both the legislative and executive branches of government is the foundation of that process. Commonwealth North and the members of this Study Group stand ready to constructively contribute to this process.

## Conclusion

Alaska is at an economic crossroads. Oil and fishing revenues, the state's financial lifelines since statehood, are at half their peak. Other sectors are unable to make up for diminishing oil revenues. Huge federal economic inputs to the state are unlikely to continue forever.

HOWEVER, Alaska is far from impoverished. In fact, Alaska has great wealth, with both financial and investment grade natural resources available. Putting these assets to work in a comprehensive and organized way, based on sound principles for

investment in perpetuity and in the public interest, can, and will, fulfill the promise of Alaska statehood. It will provide an economy based on local control and empowerment, and an enviable quality of life for all Alaskans.

## Additional Information

To get an overview of the magnitude of the state of Alaska's assets, please refer to the following website. It is part of the University of Alaska Anchorage Institute of Social and Economic Research publication "The Alaska Citizen's Guide to the Budget," subsection "A Look at the State's Assets."

[http://citizensguide.uaa.alaska.edu/6.STATE\\_ASSETS/6.State\\_Assets.htm](http://citizensguide.uaa.alaska.edu/6.STATE_ASSETS/6.State_Assets.htm)

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## About Commonwealth North

The purpose of Commonwealth North is to educate its members and others on significant public policy issues affecting Alaska and its future, and to assist in their resolution. It was founded in 1979 by former Alaska Governors Walter J. Hickel and the late William A. Egan. Commonwealth North is a non-partisan 501 (c) 3 educational organization where cultural and professional diversity is welcomed. Monthly Forums are held to hear from renowned speakers on a wide variety of stimulating and controversial subjects. Study Groups, such as the one that produced this report, are comprised of volunteer members to research critical issues. Commonwealth North is funded by individual memberships and private sector funds.

Study Group Underwriters

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