

**Investing
in
Alaska's
Future
The
Capital
Investment
Fund**

A proposal by
Commonwealth North

**The
need
to build
an
economic
backbone**

In 1976 the Legislature and the people of Alaska approved the creation of a state Permanent Fund, a savings account for future generations. Now, another fund is needed to provide what the Permanent Fund cannot—investment in an infrastructure.

The Alaska Capital Investment Fund offers the state an opportunity to transcend its colonial economy and hasten the day when it can join its sister states in the benefits which a broad-based market economy brings.

FREEDOM FROM ‘BOOM AND BUST’

Alaska is fortunate to be enjoying a time of revenue surplus. The state's leadership can now free the state from its inordinate dependence on the South 48 and build a year-round economy.

If Alaska is not to go the way of the boom towns of the western frontier, it is imperative that there be reinvestment of current revenues within the state. That reinvestment should be in projects which create an economic backbone on which the private sector can build.

WHERE SHOULD WE INVEST? ALASKA!

Alaska's surface transportation facilities are woefully deficient. The Alaska Railroad operates only between Seward and Fairbanks, leaving huge areas without rail service. America's interstate highway system does not touch Alaska—alone of all the states. In Alaska the basic means of transportation for people and freight is by air, the most expensive of all means of travel and commerce.

Much of the same can be said of the state's basic utilities. There is a clear need to develop cost-effective, modern utilities and to integrate them wherever possible.

WE HAVE THE OPPORTUNITY AND THE ABILITY.

Historically, Alaska has been capital-poor. Now, however, Alaska's public sector has the opportunity and the ability to invest in the most meaningful form of capital, the transportation and power projects that will allow the economy to diversify. This type of capital development also inherently contains the ability to achieve a goal of great merit: it can knit together rural and urban Alaska.

A UNIQUE STATE—A UNIQUE SOLUTION

This brochure describes how such an Alaska Capital Investment Fund can be established and how it might best be managed.

Parallel institutions in other states and Canada have been studied, including the Texas Railroad Commission, the Seattle Port Authority and the Alberta Heritage Fund. None of them, however, reflects the unique opportunity faced by the current generation of Alaskans.

This unique situation requires a unique solution.

SOLUTION

Alaska Capital Investment Fund



RESOURCE DEVELOPMENT
Over 95% of state revenue

Generates economic activity that in turn re-supplies state treasury.

10% of revenues
(expected to increase to 15 to 20%)*

STATE TREASURY

15% of revenues

75% of revenues

PERMANENT FUND
Interest earned returns to General Fund

ALASKA CAPITAL INVESTMENT FUND
Energy and transportation infrastructure

GENERAL FUND

1. State operations and housekeeping.
2. Capital improvements/schools, libraries, government buildings.
3. Loan programs.

*Note: Through special appropriations, the Legislature has dedicated much greater amounts to the Permanent Fund than required by law. In Fiscal Year 1980-81, 29% of revenues were so dedicated. In FY 1981-82, 41%. (Source: Alaska Department of Revenue).

The aim of the Alaska Capital Investment Fund is to channel a portion (roughly 15 %) of current revenues into the financing of Alaska's economic infrastructure. This fund will provide the mechanism for addressing basic major project needs in a controlled, coordinated fashion. It will ensure maximum positive ripple effects through all segments of the economy in both rural and urban Alaska.

ENERGY AND TRANSPORTATION— ALASKA NEEDS TO START NOW.

Many legislative leaders have gone on record in support of utilizing part of the state's resource revenues to provide Alaskans with inflation-proof energy and vital transportation links. The Alaska Capital Investment Fund would ensure that such projects take place on a timely basis and in a manner compatible with Alaska's environmental and social needs.

THE PERMANENT FUND SERVES ONE NEED— THE INVESTMENT FUND ANOTHER.

Certainly, the existing Permanent Fund represents a step toward ensuring that a portion of Alaska's wealth is preserved for future generations. The Alaska Capital Investment Fund represents a second, and equally important, step to secure benefits for future Alaskans. Unlike the Permanent Fund, this fund would be mandated to invest the dollars which belong to all Alaskans within the state itself for the benefit of both this generation and those to follow.

THE "DIVIDENDS"—NEW JOBS, NEW SERVICES AND ECONOMIC SECURITY.

Through the Capital Investment Fund, the principal will be put to work immediately in Alaska. Its "dividends" will include employment opportunities created by the projects; services to Alaskans derived from the completed projects themselves; and future economic security and stimulation based upon the bedrock of the fund's capital investments.

Implementation of this concept will provide jobs throughout Alaska and provide a more equal access to the promising opportunities that will be available in the years ahead.

THE CREATION AND MANAGEMENT OF THE FUND.

The formula for dedicating revenues to the Alaska Capital Investment Fund involves no legal novelty, as the operation of the Permanent Fund has demonstrated.

A constitutional amendment has been drafted for the consideration of the Legislature (see below). When passed, it would be placed before the voters of the state for ratification—hopefully at the general election in November 1982.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA that Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 16. ALASKA CAPITAL INVESTMENT FUND. At least fifty percent* of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a capital investment fund, which shall be used for the planning, design, and construction of large-scale capital improvements, regional in scope, which add to the economic infrastructure of the State. The fund shall be governed by a Board of Trustees as provided by law. The Board shall be appointed by the Governor, subject to confirmation by a majority of the members of the legislature in joint session.

This amendment would dedicate at least 50 % of mineral lease rentals, royalties, royalty sale proceeds and bonuses from mineral leases to the Capital Investment Fund. These revenues are estimated to amount to approximately one billion dollars per year, which is the equivalent of 15 % of the state's current annual income.

Supporting legislation also has been drafted to create the mechanism for administering the fund.

The draft legislation, patterned after that creating the Permanent Fund, provides the statutory guidelines for the ongoing operation of the fund. A number of proposals are incorporated in that legislation, including the following:

1. A Board of Trustees

Five Trustees would be appointed by the Governor and approved by the Legislature, as is the case with the Per-

manent Fund. The Trustees would serve staggered terms of office, six years in length.

2. Project selection

The duties of the Board and its staff would include research and preparation of plans and specifications for identified projects, and for the solicitation, review, and approval of bids for design and construction of the projects. Trustees and staff would insure project compliance with applicable state and federal regulations, including those relating to environmental impact.

3. Legislative approval

Although all revenues deposited in the Capital Investment Fund would be constitutionally dedicated, the Legislature would continue to exercise responsibility for proposed projects through the appropriations process. Project budgets would be submitted to the Legislature for approval prior to construction, thus providing additional assurance that all projects meet statutory requirements. Any amounts not approved by the Legislature would remain in the Capital Investment Fund for future appropriation to qualified projects.

4. Construction by the private sector

The staff would supervise construction of projects in accordance with the approved plans for those projects, and generally perform the functions of an "owner" in overseeing the quality of the work done. The actual construction, however, would be undertaken by the private sector, thereby creating jobs and economic stimulation while avoiding the creation of another state bureaucracy.

5. Completed project approval

Completed projects would be examined and reviewed for conformity with project specifications and bidding requirements, as well as with state and federal regulations. Compliance would be a prerequisite before acceptance by the Trustees and release of the builders.

*Note: this formula, similar to that of the Permanent Fund, amounts to roughly 15 % of annual state revenue.

6. Operations of finished projects

Following conclusion and acceptance of a project, the Trustees would turn it over to an appropriate entity, such as the Power Authority, a Port Authority, or a Railroad Authority, for actual operations. The Capital Investment Fund itself would have no post-construction operational authority, thus eliminating another potential source of state bureaucracy.

WHAT KIND OF INVESTMENTS?

The Alaska Capital Investment Fund would identify and build only those projects that truly add to the long-term economic health of the state. The criteria for such projects should include the following:

1. They must be very large and be of a complex nature

These will be projects which by their very essence involve large amounts of money, sophisticated studies, professional project management and that, in most instances, have useful lives exceeding 100 years.

2. They must be regional or larger in scope

The benefits from these projects should extend beyond the confines of any one local government. They must be of such dimension that historically local governments and the private sector have been unable to accomplish them.

3. They must improve the regional economic outlook

Upon project completion, the long-range regional economic outlook should be vastly enhanced. The area should become significantly more attractive for the investment of additional private capital and the creation of jobs that remain after project construction is completed.

4. They should be self-liquidating

For the most part, these projects ought to be self-liquidating. In other words, projects should have the ability to finance or (ultimately after completion) refinance themselves through the issuance of revenue bonds. Also, they should have the ability to generate revenue sufficient to cover their debt service, if any; the cost of annual maintenance and operations; and the prospect of attracting new capital.

5. Exceptions

Sometimes a project may not meet all of the above criteria and still be eligible. For example, a railroad between two relatively small population centers might not meet the self-liquidating criteria and still be deemed essential for the long-term development of the state or region as a whole.

6. Examples of possible projects

- Deep water ports capable of berthing ships for worldwide markets.
- Hydroelectric generation facilities
- Railroads
- Causeways that cross or tunnel large natural barriers
- Airports meeting international standards as well as the above regional criteria

Examples of projects that would *not* qualify for funding by the Alaska Capital Investment Fund include: local public works; "quality of life" projects, such as Anchorage's "Project 80's"; governmental buildings such as city halls, state buildings, courthouses or schools; highways and roads; social projects; projects within the capacity of local government or private sector financing, such as minehead equipment or specialized dock facilities.

Questions and Answers

Question
Answer

Will this fund benefit rural areas of the state?

Yes. One way to assist rural Alaska is to provide jobs close to home so that village residents don't have to go to Anchorage, Fairbanks or the North Slope to earn a cash income. In the years ahead, transportation links and utilities can be a vital assistance to Regional and Village Corporations as well as to other rural Alaskans.

Question
Answer

If the Legislature will continue to have the final say over the appropriation for these projects, what has changed from the present system?

The money in the Capital Investment Fund will have a fence around it. The legislature can refuse to appropriate money for a specific project recommended by the Trustees, but it cannot spend those dollars for housekeeping, frivolous schemes or porkbarreling.

Question
Answer

Why not broaden the Permanent Fund legislation to allow for investment in projects of this kind?

The Permanent Fund was established by Alaska voters to be just that - permanent. Most Alaskans want to keep that fund as a savings account rather than invest it in capital projects.

Question
Answer

Why doesn't the private sector build this infrastructure, as has been done in Texas and other resource states?

In our state the land is publicly owned. Unless we are ready to deed great portions of state land to private companies (as was done when the railroads spanned the continent), it is almost impossible for the private sector to accomplish these projects.

Question
Answer

Are there precedents for these kinds of public projects?

Yes, many of them. Examples of projects built by government include the Erie Canal, the Hoover Dam, the Houston Ship Canal, the Port of Seattle and the Alaska Railroad.

The urgency of this proposal

Some issues that surface in Alaska are matters that can be dealt with now or later. But in the case of the creation of an economic infrastructure, time is of the essence. The costs are such, in fact, that it may be a case that if it's not done now, it won't be possible to do at all.

“Broadening the economic base” has become nearly a cliché in the dialogue of Alaska citizens and policy makers. To accomplish this important task will require the tying together of the state through modern, all-weather transportation systems and low-cost power facilities. Those are the primary areas that deserve investment, certainly at the level of 15 % of state income. Those are the goals of the Alaska Capital Investment Fund.

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 action papers, such as this one.

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