

PFD - Fund is Jay Hammond's legacy to the state

Former governor wanted Alaskans to share in the state's oil and mineral wealth

Posted: Sunday, October 09, 2006

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For the Juneau Empire

When the first 2005 Alaska Permanent Fund dividend checks are distributed on Wednesday, Alaska residents should take a minute to thank former Gov. Jay Hammond for his legacy to the state.

Hammond, who died at age 83 on Aug. 2, is considered the father of the Alaska Permanent Fund. Even though Hammond tried to spread credit to others involved in passage of the amendment to the state's constitution that created the fund, most Alaskans recognized his tireless advocacy in its creation.

When Alaska Magazine editor Andy Hall and Hammond met at an Anchorage restaurant for a 2002 interview, Hall wrote that conversation stopped as diners recognized Hammond and then people came over to greet him.

"Everyone loves Santa Claus," Hammond said in the December 2002 article. "I gave them the permanent fund dividend."

The roots of the Alaska Permanent Fund can be traced to 1969, when the state held its first auction for oil leases on state-owned land on Prudhoe Bay. The state sold the drilling rights to 164 tracts of land, netting \$900 million for the state's treasury.

According to a 25th anniversary edition of "An Alaskan's Guide to the Permanent Fund," one of the biggest issues at the time was whether the \$900 million windfall should be spent or saved.

The state was just 10 years old and the state's annual budget was just \$112 million in 1969. Since the state was so sparsely populated and much less developed than it is now, the Alaskans of the time decided the \$900 million should be spent on basic infrastructure projects such as water and sewer, schools, roads and airports. The oil-lease money also was used to start the state's student loan and longevity bonus programs.

Robert Krantz, an economist and investment banker brought to Alaska by the Brookings Institute for a series of 1969 meetings with Alaskans about what to do with the \$900 million, was the first person to suggest the creation of a "perpetual and permanent capital fund for the continuing development of Alaska." In 1970, then-Gov. Keith Miller introduced legislation for a resources permanent fund that passed in the Senate and died in the House.

But it wasn't until 1975 that the state really looked again at the issue of a permanent fund. The dynamics of the state had changed, and the state was starting to bond itself into debt as with the prospect of more oil wealth on the horizon.

As the Prudhoe Bay oilfields developed, many Alaskans felt remorse for the "wasting of the \$900 million," the fund booklet said. When it came closer for the oil to flow down the pipeline, some Alaskans decided "the state should get some permanent benefits from its great oil bonanza," the booklet said.

Legislation passed in 1975 that would have allocated 50 percent of mineral leases to the permanent fund, but Hammond (who became governor in 1974) vetoed the plan because he felt it "was an unconstitutional dedication of revenues." Hammond said the state's constitution didn't allow money to be dedicated in that way, and he thought the courts would overturn the legislation.

Instead, Hammond introduced a state constitutional amendment in 1976 calling an investment of 10 percent of the money raised by mineral lease rentals, royalties, etc., into a permanent fund. The Legislature changed the amendment to call for at least 25 percent of the money to be invested into a permanent fund. In November 1976 the voters passed the amendment by a vote of 75,588 to 38,518, and on Feb. 28, 1977, the fund received its first deposit of oil revenues.

Now that the fund was established, the state had to decide how to use it. Rep. Clark Gruening led a Special House Permanent Fund Committee that held hearings around the state about how Alaskans wanted the fund to be used, such as what types of investments would be made and what types of projects fund money might be used to build.

In 1977, Hammond introduced a bill that went nowhere but did plant the seeds for the dividend check. Hammond's failed bill called for the creation of "Alaska Inc.," which would make cash payments to registered voters of one share for every five years of residency.

From 1978 to 1980, the Legislature debated whether Alaskans should be paid dividends or if they could get loans from the permanent fund. Hammond backed the dividend program because he thought it would give Alaskans more of an ownership of the fund.

"Benefits from oil wealth which belong to all Alaskans can be distributed in many ways: low-interest loans, tax relief, expanded government services," Hammond wrote in a Feb. 14, 1980, memo to House Speaker Hugh Malone. "While these all have merit, not all Alaskans are beneficiaries. This is why I have proposed a Permanent Fund dividend program."

Hammond said his dividend program would, among other reasons, allow all Alaskans to share in their resource wealth, confine benefits to Alaskans only, would have an equitable impact on both rich and poor, and it would "maximize the favorable impact upon the state's economy by keeping a far larger portion of the money to fund the programs here in Alaska."

Hammond opposed the loan program because he thought it had "hidden dividends" that only some Alaskans would enjoy. He said some Alaskans might be able to borrow \$100,000 from the fund at 9.5 percent interest, while other Alaskans would have to pay 15.5 percent interest to borrow the same amount of money at the market rate. He said the first borrower would enjoy a dividend of \$6,000 in reduced interest payments just in the first year of the loan, and over the course of a 30-year loan the dividend would reach \$94,000.

"That 'dividend' or subsidy is being paid from oil wealth owned by all Alaskans," Hammond wrote to Malone. "We don't confine payment of such loan 'dividends' to taxpayers only or demand that before we provide Alaskans with low-interest loans, we first eliminate the income tax. Why should a system which provides far more equitable benefits to all Alaskans, such as the permanent fund dividend

concept, be subordinate to that consideration? It seems high time that any new means of dispensing oil wealth should provide that all Alaskans, even the non-taxpaying, housewife, student, unemployed or retired couple get a share."

Elmer Rasmuson, the first chairman of the Alaska Permanent Fund Corp.'s board, said over time many Alaskans decided to back Hammond's dividend plan.

"Some Alaskans, including then-Gov. Jay Hammond, came to favor direct distribution of a portion of the oil revenues as a check on government growth," Rasmuson told Clifford John Groh and Gregg Erickson for a summer 1983 article in *The Alaska Journal*. "Without such a check, asserted Hammond, government spending and lending would create a dependence which would bring a wrenching dislocation when the oil money ran out. ... Further, argued Hammond, if the distribution was paid in the form of annual dividends from the permanent fund's earnings, Alaskans would be more likely to fight raids on their savings account."

The initial dividend plan to pass the Legislature in 1980 called for each Alaska resident to get a dividend of \$50 per year of residency since statehood (in 1959). But an Anchorage couple, attorneys Ron and Penny Zobel, took the plan to court as being unconstitutional because it discriminated against newer residents to the state. The case wound up going all the way to the U.S. Supreme Court, and dividend payments were held in limbo as the case lingered.

Faced with the realistic possibility that the court would strike down the 1980 dividend plan, Hammond (whose second term as governor ended later that year) introduced a substitute plan in 1982 that called for equal payments to all residents with at least six months residency in the state. While the Legislature on Hammond's plan, Hammond threatened to call a special session and veto the funding for some pet projects if lawmakers didn't vote on it before the session ended.

Under Hammond's back-up plan the first payment would be \$1,000, because of the three years the other dividend plan was tied up in court, and future PFD checks would be tied to the earnings of the fund. The court struck down by an 8-1 decision the 1980 plan on June 14, 1982, and Hammond signed his back-up plan later in the day. Within hours, the first batch of 1,000 oversize blue-and-gold checks were printed and mailed.

The permanent fund was a pioneering development for a state or national government (the only previous fund was one for the Malaysian state of Sabah), and it's grown to be a model for other governments.

Earlier this year, representatives from the country of Azerbaijan visited Juneau and spent several days learning about the operation of the Alaska Permanent Fund Corp. In 2004, a year before his death, Hammond spoke at an international congress in Washington, D.C., that was creating a similar permanent fund program for Iraq.

"And really, it was impressive, the recognition of the potentials of a properly done permanent fund dividend fund program by folk who live outside the state, who see much more clearly what the potentials are," Hammond said in a speech to Commonwealth North a few days after his trip to Washington, D.C. "It's spreading like wildfire all over the world because its potentials are absolutely fantastic."