

ALASKA STATE LEGISLATURE

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Sponsor Statement **Senate Joint Resolution 1**

*Proposing amendments to the Constitution of the State of Alaska
relating to the Alaska permanent fund
and appropriations from the Alaska permanent fund*

In 1976 Alaskans voted to establish the Alaska Permanent Fund in the Alaska Constitution. Under the Permanent Fund Clause, the Fund would automatically receive at least twenty-five percent of the state's mineral resource royalties, rents, and bonuses. While the principle of the Fund was to be locked from use and left for investment purposes only, Governor Jay Hammond and the Alaska Legislature expected that the income generated by the Fund could be used by the state, including the prospect of earnings distributed as dividends to Alaskans.

Following the Fund's creation, Alaska policymakers began observing that special interests and the politically connected were reaping more benefit from the Fund earnings through government spending than average Alaskans. This concern provided significant impetus for the legislature's establishment of the Permanent Fund Dividend by law in 1982, providing a definitive statutory formula for its calculation.

The PFD was consequently meant to represent every Alaskan's small, equal share of the resource wealth we collectively own under Article IX, section 2 of the Alaska Constitution, which states: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

As Governor Hammond saw it, a dividend was "the best, perhaps the *only*, way to meet our constitutional mandate to manage our natural resources for the maximum benefit of all the people," because it "grant[s] each citizen an ownership share in Alaska's resource wealth to be used as they, not government, felt was for their maximum benefit."¹

Representative Al Adams, Chair of the House Finance Committee, explained the committee's intent for the new program: "[T]he payment of dividends shall have *first call*" on the Fund's income available for use, "*regardless of what other uses the income is put to.*"² Hammond also saw the PFD program as "the most effective way of curbing excessive government growth"³ and envisioned that the PFD would protect the Fund from "invasion by politicians by creating a militant ring of dividend recipients who would resist any such usage if it affected their dividends."⁴

Under these sound policy rationales, the PFD was distributed to Alaskans for 34 years in accordance with its statutory transfer requirement in AS 37.12.145(b). But in 2016 Governor Bill Walker vetoed the legislature's full funding for the PFD by about one-half. Subsequently, the Alaska Supreme Court ruled that the governor's veto was not illegal, declaring that, "Absent another constitutional amendment, the Permanent Fund dividend program must compete for annual legislative funding just as other state programs."⁵ Since that ruling, the legislature itself has acted to reduce the PFD; every Alaskan has experienced nearly \$7,000 in PFD cuts over the last five years.

Senate Joint Resolution 1 aims to enshrine the PFD program in the Alaska Constitution to effect the fair and prudent policy rationales for which the program was intended to achieve. It would protect overspending the Fund by moving the balance of the Earnings Reserve Account, which currently holds the Fund's investment earnings, into the Fund corpus, where all future earnings will be retained and thereby safeguarded from access. SJR 1 then limits the permissible draw from the Fund to five percent (5%) of a five-year averaged market value. The people would then be apportioned either fifty percent (50%) of the draw value *or* the amount of the historic calculation formula—whichever is greater. In this way, the people will always receive *first call* on the earnings of the Fund, ahead of government.

Failing to constitutionalize the PFD would enable a disproportionate distribution of Alaska's oil wealth to those most able to leverage political influence to persuade lawmakers to fund their endeavors, at the expense of average Alaskans. Neglecting to constitutionalize the PFD would permit lawmakers to continue avoiding their obligation to address other revenue measures than the Fund earnings, placing the Permanent Fund at grave risk.

Please join me in supporting SJR 1 to constitutionally enshrine the Permanent Fund Dividend to provide for the maximum benefit of all Alaskans and ensure the prosperity of the Permanent Fund for generations of Alaskans to come.

¹ Jay Hammond, *DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS* 16, 2d Ed. (2011) (emphasis in original).

² House Finance Committee, Committee Letter of Intent HCS CSSB 842, Minutes of House Finance Committee, Senate Bill 842, at 736 (May 14, 1982) (emphasis added).

³ Testimony of Governor Hammond before the House Finance Committee (Mar. 15, 1982).

⁴ Jay Hammond, *DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS* 16, 2d Ed. (2011).

⁵ *Wielechowski v. State*, 403 P.3d 1141, 1152 (Alaska 2017).