

HJR

48

HOUSE STATE AFFAIRS COMMITTEE

NEXT COMMITTEE: JUDICIARY

BILL: HJR 48

CURRENT VERSION:

SCHEDULED: FEBRUARY 17, 1988

SPONSOR: ULMER

PHONE NO: 4947

CONTACT FILE: _____

BILL SUBJECT: AMENDMENT TO CONSTITUTION RELATING TO INCOME FROM PERMANENT FUND

SPONSOR BACKUP: IN FILES

AFFECTED AGENCIES:

<u>DEPARTMENT</u>	<u>CONTACT/PHONE</u>	<u>COMMENT</u>
ELECTIONS	LINDA EDGEWORTH/4611	
REVENUE	ROYCE WELLER/2300	

FISCAL NOTES

<u>AGENCY</u>	<u>REQUESTED</u>	<u>DATED</u>	<u>FY 88 AMT</u>	<u>FY 89 AMT</u>
ELECTIONS		2/1/88	-0-	2.2
REVENUE				

ACTION

<u>DATE</u>	<u>COMMENT</u>
2/17/88	PASSED FROM HOUSE STATE AFFAIRS COMMITTEE

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY
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POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House State Affs:

2/17/88

(7)

HOUSE COMMITTEE REPORT

Date referred: 1/22/88

FURTHER REFERRALS:

Judiciary
Finance

DATE: 2-17-88

The State Affairs Committee has considered HJR 48

Proposing an amendment to the Constitution of the State of Alaska relating to income from the permanent fund.

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

[Signature]

SIGNING OTHER RECOMMENDATIONS:

[Signature] Asks
[Signature] NO REC -
[Signature] - No meaningful
[Signature] (no rec.) work was done on bill

[Signature]

 Chairman's signature

why not list amendment on Cons. Education?

1 IN THE HOUSE

BY ULMER AND HUDSON
BY REQUEST

2 HOUSE JOINT RESOLUTION NO. 48

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska relating to
7 income from the permanent fund.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. Article IX, sec. 15, Constitution of the State of Alaska
10 is amended to read:

11 SECTION 15. ALASKA PERMANENT FUND. (a) At least twenty-five
12 percent of all mineral lease rentals, royalties, royalty sale
13 proceeds, federal mineral revenue sharing payments and bonuses
14 received by the State shall be placed in a permanent fund, the
15 principal of which shall be used only for those income-producing
16 investments specifically designated by law as eligible for permanent
17 fund investments. [ALL INCOME FROM THE PERMANENT FUND SHALL BE
18 DEPOSITED IN THE GENERAL FUND UNLESS OTHERWISE PROVIDED BY LAW.]

19 * Sec. 2. Article IX, sec. 15, Constitution of the State of Alaska is
20 amended by adding new subsections to read:

21 (b) Income from the permanent fund shall be used to provide for
22 the payment of annual dividends to residents of the state, to offset
23 the effects of inflation on the principal, and to provide for the
24 operating costs of the fund and dividend program.

25 (c) Income from the permanent fund may be used to increase the
26 principal and to appropriate for any extraordinary public expenses
27 which may from time-to-time arise.

28 (d) Notwithstanding Section 14 of Article II and Section 1 of
29 Article XI, an appropriation under (c) of this section for any

*Article 27
Sec 26 -
Article 11
Revised 1/22/88*

Editorial Note: Section 15, Article IX, Constitution of the State of Alaska, as amended by HJR 48, is effective 1/22/88.

1 extraordinary public expense shall be placed on the ballot by the
2 lieutenant governor for the next general or special election and may
3 not take effect unless approved by a majority vote. Unless otherwise
4 provided in the law, the appropriation becomes effective thirty days
5 after certification of the election returns by the lieutenant gover-
6 nor.

7 * Sec. 3. The amendments proposed by this resolution shall be placed
8 before the voters of the state at the next general election in conformity
9 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
10 tion laws of the state.

UCIOW * CIV NOT REQUIRED BY THE
SIP

THE HAMMOND AMENDMENT

by Robert E. Newton

November 2, 1976 marked a redletter day for the Alaska public. Authorized by a popular vote taken in a state general election, the Alaska Permanent Fund was formally chartered on that date in the state constitution. This investment fund was created to hold a minimum of twenty-five percent of the state's royalty income from the petroleum industry in a public trust for all state residents. All told this investment has included approximately ten percent of total state revenue since 1976. In addition to the constitutionally mandated contributions, extra deposits, approximately doubling the size of the fund, have been made at the option of various governors and state legislatures. The size of the fund today reflects a continuous, lively sense of responsibility on the part of elected state officials to cooperate with the spirit as well as the letter of the state constitution.

The original permanent fund amendment was designed to counter the tide of excessive state spending which had already commenced in 1969 when the state received \$900 million as a result of the initial state

Dr. Newton is a publicist on legal and state governmental issues. A Phi Beta Kapp^l laureate from Iowa University (1956), he served in the legislature of that state in 1969-70. He earned a Ph.D. in political science from the Catholic University of America in 1965. He has resided in Juneau for the past seventeen years.

lease purchases by the petroleum companies before the pipeline was constructed and oil production began. A consensus gradually developed during the construction years (1969 - 1978) to the effect that abuses in state spending would unavoidably and markedly accelerate after petroleum production did begin. It was also known that over a relatively brief period (five to seven years) of bonanza-level production the volume of oil produced would commence to seriously decline. Proportionately state revenue receipts would also decline. The permanent fund was designed to provide one sure way to safely retain a portion of the short-term wealth from the years of peak production for future generations of Alaskans. Over the years since the permanent fund was chartered more than \$9 billion has been deposited into its principal. At the present time it is one of the largest trust funds in the world. It is the corporate property of the people of Alaska.

Jay Hammond was Alaska's governor (1974 - 1982) when the original permanent fund amendment was framed and adopted. Safeguarding and shepherding the public's petroleum heritage represents the finest achievement of his career in Alaska public life. Not his idea alone, Hammond placed a high priority on the fund's speedy adoption in the early years of his first term. As governor he consistently supported permanent fund deposits in excess of the minimum which is mandated by the state constitution. In his retirement years since 1982, Hammond has returned frequently to the limelight in order to foster and to protect the fund, and to focus public attention on issues affecting it. Several recent proposals--all of them perfectly legal and constitutional--to divert permanent fund income toward defraying routine, recurring state governmental expenditures have not only been opposed

The Hammond Amendment, Robert E. Newton, p. 3

attention. He has responded with a proposal for additional constitutional safeguards to protect the income as well as the principal of the permanent fund. Hammond's original concern when he was governor, and that of others who assisted him, was directed toward setting the money aside, protecting the principal with ironclad prohibitions against spending it for any purpose, and providing for its prudent investment in order to bring about a maximum return of interest income. The achievement of this goal has far exceeded the best hopes and expectations of many of the fund's early advocates.

Sound management and regular annual increases to the permanent fund's principal have produced the result of the fund's income averaging over \$500 million during the past five years. The continuation of current policies will likely, if not certainly, guarantee further increases in the future. Do we need, therefore, to concern ourselves at the present time with questions as to how the permanent fund income should be spent? The Hammond Amendment answers this question with a resounding Yes! The bonanza petroleum revenue years are over. Moderate, declining production, and new fields which might-- or might not--guarantee sustained, moderate production for the decades ahead can now be anticipated. The public and its elected policy-makers should understand that adjusting state spending to this post-boom circumstance is now the issue confronting Alaskans. The bonanza years cannot be recaptured by manipulating the income account of the permanent fund. The Hammond Amendment calls public attention back to its original purpose.

The Hammond Amendment provides a constitutional mandate to the governor and to the state legislature to regularly use permanent fund income

for three purposes only. They must, first of all, pay annual dividends from the fund income to Alaska residents. This means all permanent state residents will continue to enjoy and to participate on an equal basis in a share of the income produced by their money. The dividend program, honest in its original conception and kept that way over the years since it was inaugurated, is not a governmental "give away" program. It represents an honest acknowledgement of the existence of the rights of the people who actually own the permanent fund. It also serves as a stern reminder of this fact and a tacit restraint upon anyone who might be tempted to curtail these rights.

Second, the Hammond Amendment directs the governor and the state legislature to use fund income to safeguard the fund from the adverse effects of inflation. Always a potential danger to any invested resource, inflation can, and regularly does, affect diversified investment funds in many different ways. Unavoidable and unpredictable, inflationary problems present themselves on a daily basis. Managers of trust funds respond to inflationary problems by holding a portion of their undistributed income in constant reserves where it is ready to offset inflationary losses when and where they occur. This promptly restores the total of the principal each time inflation depletes it in any manner.

A third constitutional mandate in the Hammond Amendment directs the governor and the state legislature to defray all operating costs from fund income. These costs include the salaries of the permanent trustees, professional help for their employees, their housing, maintenance, travel, and all other necessary expenses. The amount of these costs is determined by the state legislature and is subject to the approval of the permanent trustees.

from other state administration, prevents the intermingling of fund income with other state income, and effectively requires all fund operations to be self-supporting.

The Hammond Amendment allows the governor and the state legislature two options in the use of permanent fund income. It reserves the judgment to them as to when sufficient income surpluses have accrued to warrant transfers to the principal of the fund. With this provision surpluses can be readily transferred to principal as often as they accumulate.

A second optional spending clause in the Hammond Amendment allows the governor and the state legislature to appropriate from fund income "for any extraordinary public expenses which may from time to time arise." Such appropriations, however, "must be approved by a majority of the voters of the state in a general or special election." This clause can be invoked at any time. It imposes no cumbersome procedures on the governor and the state legislature. It acknowledges the lively possibility that permanent fund income could be needed at any time for many different purposes. But it gives the Alaska public the last word in approving any such expenditures. It ensures that the money will always be available as a genuine emergency fund or as a source of public support for any bona fide need which could actually gain the approval of the voters. It effectively prohibits creative depletion of fund income through resorts to the whole range of subterfuges--multiplication in their number and kind--for the unaccountable spending of public money.

Your help needed protecting fund



Jay Hammond
bushrat'lings

Having tried my hand as both political newsmaker and muckraker, I have empathy for both rakers and rakees. Sometimes I marvel that reporters capture what they do of a story's complexities. At others, I share the dismay of all who have served in public office with the media's frequent failure to convey accurately what I REALLY meant to say.

Accordingly I understand frustration of state senators which prompted their newsletter "end run" around the media, just as I can understand the media's affront with the Senate's effort to elevate itself through disparagement of media credibility. I can understand; but totally agree with neither.

Considering the skepticism in which most hold politicians, small wonder praise they heap upon themselves is considered simply propaganda. On the other hand, have you ever seen a news story in which you played a role which was completely accurate?

Rather than berate the Senate for its flyer, far better for media to ferret out what errors, if any, it contained and just as critically examine its own efforts to assure accuracy and fairness.

These reflections are prompted by a recent news conference at which I, I. At-

tempted to hold Mayor-elect Tom Fink's feet to the fire of his campaign commitment to first seek a public vote before trying to tap permanent fund earnings; and 2. Explained why I invested my dividend check in Sen. Rick Halford's re-election.

Something got lost in translation. In one news story I appeared instead to kiss Tom's feet and reward Halford for something I oppose: a constitutional amendment dividing earnings 30 percent for dividends, 30 percent for inflation proofing and 40 percent for the legislature. Actually I support Halford in spite of his co-sponsorship of that bill, since I am assured that at the time it was designed primarily to counter efforts to break into those earnings with even less constraint and no public vote whatsoever.

Sen. Halford was singled out because I believe no one

more accurately reflects my views on the permanent fund and can more likely assure they are legislatively accommodated.

Last year I urged the legislature to place before voters a constitutional amendment stipulating that fund earnings would be used only for payments of dividends, inflation proofing or as otherwise provided by law ratified by a majority of the voters. Sen. Halford introduced legislation to do this. It was that, not 30-30-40, which "won" him my dividend and warrants support of all who believe that earnings of the fund need more protection.

Subsequently a group in Juneau, including highly esteemed economist Dr. George Rogers, sought my approval for what they wished to term "The Hammond Amendment." This, in somewhat different language, also would accomplish my objective. Despite fear such a label might prove a talant, I gave them my approval.

The legislature must have some firm guidelines as to how, if, and when those earnings may be used. Those guidelines should be drawn up by the people, not the politicians. If you agree, I strongly urge you to instruct your legislators to support SJR No. 25 sponsored by Halford and Szymanski.

Please don't put it off! Do it now! Many have encouraged me to continue efforts to safeguard the permanent fund. Certainly I'll continue them; but as never before I need your help.

Happily, among those who now assert they would require a public vote before the motherlode of fund earnings could be dug into is one previously trying hardest to dig into them: Mayor Tom Fink.

Mr. Fink has been credited by most with two prime commodities: fiscal conservatism and integrity. While the former recently came into question through his proposal to "jump start" our economy by jolting it with simply more of the same state subsidies which caused much of our economic short circuiting in the first place, few question Tom's integrity.

Now that Tom has laid aside his pick, shovel and jumper cables and given his word that he's on board supporting a public vote, I sleep much better. After all, most everyone will tell you Tom Fink is an honorable man whose word is gold. And honorable men do not salt their claims — at least not with iron pyrite.

□ Jay Hammond was governor of Alaska from 1974-1982.

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: HJR 48
PUBLISH DATE: HJR 48

FISCAL NOTE

REQUEST:

Revision Date: 1/29/88
Title: Constitutional amendment relating to income from the permanent fund.
Sponsor: ULMER
Requestor: House State Affairs

Agency Affected: Office of the Governor
BRU: Division of Elections
Components: II - Primary & General Elections

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	0	2.2*	0	0	0	0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	2.2*	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	2.2*	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

* Costs included cover 2 to 3 additional pages in each Official Election Pamphlet, for printing and typesetting, and costs estimated to cover computer programming requirements for vote (cont.)

Prepared by: Linda Edgeworth
Division: Elections

Phone: 465-4611
Date: 1/22/88

Approved by Commissioner: [Signature]
Agency: Office of the Governor, Division of Elections

Date: 2-1-88

Distribution (by preparer): 2/1/88
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. HJR 48

counting purposes. However, these costs are based on the assumption that all candidates and issues will fit on three ballot cards, which is the norm. It should be noted, however that should the inclusion of this issue require a 4th ballot to be printed, the cost increase would have to be calculated at 16 cents per ballot x approximately 320,000 voters. The total cost of printing the additional ballot card would be \$51.2.

Under these circumstances the fiscal note would be:

53.4