

Port Alsworth, Alaska 99653
Feb. 3, 2004
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Open Letter To POMV Conferees:

For years I have sought means of spanning the fiscal gap which were simple, effective and saleable. Though some pieces of the puzzle were evident, it was not until recently the last piece fell in place. That final piece is an endowment which could appropriate up to 5% of the Permanent Fund's market value.

That 5%'s *proper* use could resolve the entire fiscal gap will little if any pain while accomplishing other worthy objectives of an amazing array. Forgive me for taking so long to figure it out.

Some among you may propose a 50/50 split between dividends and spending. Others will demand no less than 80/20. Of the two, the latter, obviously, would be the preference of most recipients who have come to view the program as "The Permanent Dividend Fund". However, neither "split" should be spelled out in the constitution.

Over past weeks I have met with several legislators, various interest groups, members of the media and a congregation of individuals as disparate as Clem Tillion, Rick Halford, Uwe Kalenka, Jim Sykes, Eddie Burke and Senator Lisa Murkowski. I have asked each to attempt to punch holes in the assertion that a PROPER endowment, in conjunction with three other crucial elements of our fiscal plan, could meet all of the following worthy objectives:

1. Span the fiscal gap
2. Resurrect a proper longevity bonus
3. Fully fund education
4. Restore revenue sharing
5. Eliminate whatever "magnetic attraction" there is of dividends and the attendant many-fold greater lure of "free" non-income taxed services drawing "free loaders" up here.
6. Help resolve the "Alaska Disconnect"
7. Encourage healthy development

8. Fulfill original intent of PFD
9. Increase predictability of amount so distributed
10. Guarantee continuance of dividends
11. Greatly Increase size of dividends.
12. Entail little or no political pain
13. Enhance re-election of all who support it
14. Better impose fiscal constraint on legislature than would a constitutional amendment
15. Require no immediate tax imposition
16. Let voters decide what kind of broad based tax, when and if any needed
17. Reduce federal tax drain on dividends
18. Increase "bang for the buck" of dividends
19. Promote local hire
20. Place before voters the only POMV likely to pass
21. Facilitate the Cremona Plan concept
22. Increase retained dividend income by those most needful
23. Remove many from welfare
24. Take not one cent of your hard earned income; only that of non-resident fisherman, pipeline and construction workers et al
25. Increase percentage of tax paid by non-residents
26. Prohibit spending any of your prospective dividend dollars without your approval
27. Be perfectly legal
28. Make Alaska the most envied state in the nation if not the world.

Most to whom we have explained the plan, instantly saw its potentials and evidenced ardent support. Those who did not were asked to review the plan and disprove our contention it could meet all of the above 28 worthy objectives. So far none have done so. Instead, most have concurred. Though some said they might prefer a different endowment approach, such as a split between dividends and government services, they concede no such endowment can possibly pass since in but a few years it would reduce shareholder's prospective dividends by millions of dollars. Ours, by contrast, would greatly increase them. Therefore all agreed that, for reasons noble or ignoble, most shareholders would much prefer our approach.

And just what is a proper endowment? In our view it must constitutionally guarantee inflation proofing and dividends at least as

large as they would have been without any endowment, unless otherwise approved by the majority of recipients. Otherwise we felt it was almost assured the CBR would exhaust and not only dividends but the fund itself be gravely threatened, To avoid that worst case scenario, .we were reluctantly about to agree to supporting something which would at least partially meet our objectives.

Just in the nick of time a Wall Street Journal article by Nobel Prize winning economist Vernon Smith prompted reassessment of our willingness to compromise. Dr. Smith had suddenly lent enormous credibility to our prime desire which always has been to make of the Permanent Fund a “People’s Portfolio” in which all Alaskans were shareholders. He, much more clearly than many Alaskans, appreciates our fabulous, but rapidly diminishing opportunity to do it right: Example:

“Now is the time and Iraq is the place to create an economic system embodying the revolutionary principle that public assets belong directly to the people and can be managed to further individual benefit and free choice without intermediate government ownership.

“Follow Alaska’s precedent, but avoid Alaska’s mistakes. (Among mistakes cited were) “...failure to put *all* resource wealth into the Permanent Fund and not treating the fund *solely* as a stock sharing investment account owned by all Alaskans with *no* use of fund earnings for other than dividends without a vote of all shareholders.

“I favor government use of taxes to finance budgets rather than tap the people’s fund. Requiring the state to pass through the eye of the needle of voter approval its tax and spending policies is an important means of disciplining. Be wary of giving government drawing rights on the value of public assets. Public resources should belong directly to the public through mechanisms like Alaska’s Permanent Fund. Alaskans deserve to be very proud of innovating this fund. It is model governments all over the world would be well advised to copy.”

Amen! Such a process would *compel* politicians to abide by the wise commandment: “Thou shalt not spend more than that for which thou art willing to tax “. But, unfortunately, such constraint would be imposed only on the less than half the *earnings* of the 12 ½% of our

oil wealth invested in the permanent Fund. The remaining unprotected 87 ½% would continue to be subject to the unconstrained spending directly attributable to abolition, rather than suspension, of the income tax. That imprudent action has marched us to the very brink of the fiscal gap. To more fully comply with Dr. Smith's sage council perhaps the Cremo Plan should be revisited?

We believe that one with Dr. Smith's stature can instill far greater interest than can we in the best approach required to fulfill our hope for a true "people's portfolio". A hope which I had first attempted but failed to fulfill forty years ago with fish in "Bristol Bay Inc, and later with oil in "Alaska, Inc, With that hope burnished, we can no longer support an endowment which does other than provide the full potential to achieve that model of which Dr. Smith speaks.

The governor has repeatedly said he wanted this group to determine what kind of endowment most Alaskans would vote for. Not what kind of endowment you as a *group* might prefer. The two could be very different indeed. He, as do we, apparently believes each Permanent Fund "shareholder" should be granted an equal say as to how their fund is managed and to what extent they are willing to allow legislators to spend a portion of their prospective dividends.

In order to ascertain this, he asked conveners to appoint 55 Alaskans to represent all areas and interests. Yet unless 1/3 of you are under 18, the views of over 200,000 "shareholders", children, can only be speculated upon.

Be assured it is not lack of their inclusion which prompted me to boycott this assemblage, just long standing scheduling conflicts. If I thought my presence was required to convey what I believe you will conclude is the **ONLY** endowment concept which can possibly muster voter support, I'd forgo basking instead on a beach in Hawaii.

I have asked Clem Tillion to present our proposal since I cannot be there. Clem, along with Rick Halford, not only helped immeasurably to put the puzzle's pieces together but can convey our message with far more gusto and credibility than ever could I who am seen by some as so passionate a defender of dividends I would cut state spending in half if it took that to assure their continuance. I have little doubt but

that Clem can make it abundantly clear that no POMV can possibly pass unless it fully inflation proofs the Fund and permits legislators to spend NO prospective dividend dollars without “shareholder” approval.

We believe language which meets criteria required to secure public support and for which we could campaign ardently might read as follows:

“Only when the market value of the Permanent fund, after full inflation proofing, has increased over the previous year, may the legislature appropriate that increase; not to exceed 5% of the fund’s current market value. Such appropriation shall be directly distributed in dividends to every qualified Alaskan unless otherwise approved by law endorsed by a majority of qualified dividend recipients or a 2/3 vote of all registered voters.”

No doubt many of you are aghast at the provision that any appropriation from the fund go only for dividends, unless a public vote deems otherwise. Yet reserve your dismay till you’ve seen how that works in concert with 3 other crucial elements of a plan which could meet *all* 28 worthy objectives cited above.

Before we reveal it, first scrub your mind clean of effluvia which may have polluted it over the years through propaganda dispensed by some who would *like* to destroy dividends and raid the Permanent Fund.

For example, while it perhaps was the intent of some who were not there to make a “rainy day” account of the Permanent Fund, that certainly was not the primary intent of Hugh Malone, Oral Freeman, Clark Gruening, Clem Tillion, Rick Halford, Sam Cotton. Chancy Croft or myself who *were* there. All of us felt dispersal of dividends should be paramount. I had tried to incorporate dividends in the constitutional amendment we had insisted upon which created the Fund. However, I was cautioned not to seek overkill. Had we wished the Fund to be only a rainy day account we would certainly not called it Permanent. it would have been nothing but a SEMI-permanent Fund like the CBR which, of course, *is* our rainy day account. Bless the governor for establishing a point beneath which he’ll not permit it

to drain. Our 4 part proposal creates means by which he can assure it does not. Absent such plan, to keep his promise the Governor will have no recourse but to make crippling budget cuts or impose a tax on your hard earned income.

Others try to confuse you with the superficial argument:” It simply doesn’t make sense for government to hand out money with one hand and tax it back with the other”. On the contrary, as Dr. Smith so clearly perceives, it makes perfect sense. Far better to put the people’s oil wealth in their pockets and require politicians to claw it back through what he terms “eye of the needle” taxation; rather than permit government to dispense it inequitably in “socialistic programs” which effect each Alaskan differently. What a wonderful way to inhibit unbridled spending.

There are other reasons: !.It assures non-residents pay for the privilege of gleaning wealth from Alaska and 2. It is required to remedy what the Anchorage News terms ”The Alaska Disconnect “: Development which creates new jobs and population growth but fails to generate sufficient income to offset added service costs. As predicted, this occurred when repeal of the income tax cut loose public concern over spending, letting it soar into the stratosphere.

Moreover, only such provision clearly meets promises made by Governor Knowles, myself and most forcefully by Governor Hickel who took out a full page add pledging to veto any appropriation of Permanent fund money for other than dividends and inflation proofing. Governor Murkowski has made a similar pledge

The very first dividend under our proposal would be \$2160 if the endowment was approved by voters in 2004 and went into effect in 2005. Without the endowment they would be but \$856 and with one splitting appropriations 50/50 they would still be only \$1,080. Over time that difference would grow dramatically.

Of course it makes little sense to more than double your dividends without first addressing legitimate, if perhaps overblown, objections to the magnetic attraction which allegedly lures free loaders up here. Such occurred when the original “Alaska, Inc” concept was “Zobelized”. Curiously, however, I find few who are distressed over

the dividend's magnetic attraction caring at all about what then must be the similar magnetic attraction of the current \$6618 per capita non-income taxed government service "freebies", which are nothing more than inequitably distributed "hidden dividends" benefiting every Alaskan differently.

When folks lay this criticism of Permanent Fund dividends on you ask: "By the way, why and when did *you* come up here?"

The second part of our plan would staunch whatever magnetic attraction there be of dividends *or* no income tax. To do so, this legislature should this session pass legislation providing that anyone wishing to qualify for a PFD must do so during the following year. After that, only those who have qualified for, say, dividend "A" will receive it. Then perhaps after the fund has grown by a certain %, dividend "B" will be issued. Its size would be determined by dividing the total number of then qualified applicants into that fund increase. Recipients of "A" would receive "B" as well...and so on. Legal? It was for the phased out Longevity Bonus, If enacted, one year after the first year an endowment could go into effect (2005) the magnetic attraction of dividends would almost be gone.

The 3rd part of our plan addresses how we "claw" back some of those dividend dollars for funding government, along with taxes from transients who profit from doing business here. To do so with minimum pain to Alaskans requires an income tax, capped at no more than your dividend, with the cap to be removed only with voter approval. Such a tax could be automatically ratcheted up to claw back as many dollars as needed without costing Alaskans a penny of their earned income. Of course, non-residents, though also paying no more than what the tax cap would limit, *would* pay on their earned income.

No need for such a tax to be imposed this year. Instead the legislature should place on the ballot an advisory question as to which tax Alaskans would least object to being imposed if the CBR were to deplete beneath the billion dollar threshold the governor has set: A statewide sales tax or a capped income tax? Were such tax

passed this session, despite possible voter preference, the governor might feel compelled to veto it since he has said he would not approve an income tax. However, if the vote indicated preference for what to Alaskans really is nothing more than a progressively graduated "dividend tax" (which, of course, would be a deduction from one's federal taxes, I believe the governor would support it in compliance with his assertions the people, not the politicians, should decide actions impacting their Permanent Fund.

To span the fiscal gap, the 4 parts of the above plan must work in concert. The greatly increased dispersal of dividends under our POMV is contingent upon passage of the other 3. parts.

Here's an example of how our plan would work:

If, say, in 2006 it took what is projected to be \$350,000,000 to bring the CBR back up to the Governor's 1 billion threshold. Were the capped tax in place, it would automatically kick in at a percentage of your federal tax owed sufficient to generate \$315 million. The other 10%, 35 million, would be paid by transients. While 5% of 28 billion (1.4 billion) would be distributed in dividends of about \$2160 apiece, the capped tax would have to "claw back" only 315 million, which averages out to a bit over \$500 per shareholder in dividend taxes from 600,000 Alaskans. This would still leave about \$1650 in the average Alaskan's pocket. (Should future development then produce enough wealth to keep the CBR at no less the 1 billion, the tax would decline or suspend.)

Of course while some of the more affluent would pay a full dividend's worth of tax, most would pay substantially less and many almost nothing at all in what is a nothing more to Alaskans than a progressively graduated "dividend tax". By contrast with a 50/50 split dispensing only half of that 1.4 billion in dividends, every Alaskan would simply get the same check of around a thousand dollars. That would have exactly the same impact as would the most outrageously regressive *reverse* graduated tax imaginable: The less income you had, the greater % you'd pay in taxes. Since under our proposal most "shareholders" would receive a great deal more in dividends, rather than less, is there any question as to which POMV most would prefer? If that answer seems clear and you follow the governor's

directive to propose the POMV most likely to win voter approval and help solve the fiscal gap, it seems you have an easy choice. Either a POMV which fails on both counts and thereby is doomed; or one which by contrast could pass overwhelmingly once Alaskans understand that it alone could meet ALL of the those 28 desirable objectives. Should you choose the latter, I have no doubt Alaskans will laud you for years to come. Here's your chance to either go down in flames, as many predict, or leave here in a blaze of glory.

So confident am I that Alaskans will overwhelmingly support our plan if once understood, as do virtually all who now understand it, I am willing to make this commitment; Should this legislature upon your recommendation enact the enabling legislation, in return for only necessary expenses I will travel throughout the state whenever and wherever required to try to "sell" it. Should the necessary number of Alaskans voters fail to "buy" a POMV such as we advocate, I will personally reimburse the state for all the anticipated less the \$200,000 expended.

Most respectfully,

Jay Hammond