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Members of the Alaska Legislature
Alaska State Capitol
Juneau, Alaska

Re: Permanent Fund & PFD

Distinguished Members of the 32nd Alaska Legislature:

Before writing this missive, I gave considerable thought to whether or not I have anything relevant to add to your deliberations. After all, I am 95 and the contemporary political scene is much changed since I served in the Alaska Legislature.

On reflection and as I have been paying close attention to what is transpiring or perhaps not happening down in Juneau, I do have some general guidance that may assist in addressing some of the difficult challenges facing Alaska.

The demands of the present that command much of your attention are, in some regards, in conflict with the need for protecting our collective future. As a teenager serving in the United States Navy on Tulagi and Guadalcanal, I learned first-hand in a sometimes-brutal manner how the present can overwhelm the future. We didn't think very much about the future in those tough days given that someone you might share rations with at breakfast might not make it past lunch.

Providing for the future in the face of immediate demands is arguably the hardest task any elected official faces. When Hugh Malone, Oral Freeman, Jay Hammond and other political leaders were maneuvering to save a fraction of the oil wealth owned by the people by establishing the Alaska Permanent Fund, the idea of saving a small portion of our collective wealth from a non-renewable resource was bitterly contested. So was the idea that the people should obtain a share of the earnings from their savings account in the form of a Permanent Fund Dividend.

Similarly, the concept of amending our Constitution to provide for limited entry in our splendid fisheries to protect the long-term viability of this rich renewable resource was slugged out in a not very genteel fashion. Still, who among us disputes the value of

saving via our Permanent Fund, how the Permanent Fund Dividend has lifted many citizens out of poverty and broadened the economy or the merits of protecting Alaska's fisheries?

Which brings me to the point I believe is critical. Alaska's financial future and whether our people will thrive instead of merely surviving is dependent on the Alaska Legislature acting to protect the Alaska Permanent Fund, including putting a halt to spending money from the existing Earnings Reserve Account. You also need to act promptly to settle, once and for all, the annual brawl over how to appropriate funds from the Permanent Fund earnings in order to pay the dividend.

It is obvious to anyone paying the slightest bit of attention the past six or so years that we are spending more than is available for government. Borrowing funds from savings accounts like the statutory budget reserve account and the constitutional budget reserve account cannot continue. In a fiscal sense, we have been living on borrowed time and the end-of-the-line is drawing near. Next up in terms of spending, if we cannot control ourselves, is the race through the Earnings Reserve Account, a matter that will prove disastrous in a matter of a few years if we walk down that trail.

At this point, if you are still reading this correspondence, you wouldn't be wrong if you conclude I am nattering on and telling you something that you already know. So, what is to be done?

Creating the Alaska Permanent Fund is probably the single best accomplishment completed by our state government since statehood. It can be argued (and has been), that we should have saved more and spent less. Perhaps so. Those of us who were there at the time did the best we could and the legacy we left is what you have to work with but at least we left you with options, some of them pretty good.

To be sure, we made some mistakes. Until the Alaska Supreme Court decided otherwise, I believed with all my heart that the constitutional amendment we advanced and the people ratified setting up the Permanent Fund implicitly allowed for the dedication of a dividend from the earnings of the fund. We left the dividend formula up to the legislature based on the desire to give future legislatures some flexibility. But nobody expected the judiciary to rule that the dividend was just another appropriation to be battled over by factions in our society. Back in the day, we really believed the legislature would protect the Permanent Fund by protecting the dividend from being carved up and devoured by special interests and the lobbyists.

At this point, there is a loose move to change the Permanent Fund from what is essentially a trust fund into an endowment according to the Percentage of Market Value structure. This would be a fundamental shift in how the Permanent Fund is structured and nobody in the Alaska Legislature should be under the impression that adopting the POMV structure is a simple accounting move without potential to destroy the Permanent Fund.

Let me be blunt. I do not like the POMV concept. I have two reasons for not liking a shift to the POMV methodology. First, if the percentage drawn from the value of the Permanent Fund is established at or fractionally above 4%, the fund will be overdrawn at some point and enter into a downward spending spiral that will destroy the fund. If you don't believe me, simply take counsel from the consultants to the Permanent Fund Corporation who indicated this year that drawing 5% from the fund is unsustainable. The analysis by the consultants to the Permanent Fund Corporation conducted prudent stress tests illustrate the likelihood of systemic failure by adopting an overly generous percentage value. Secondly, the problem of how to split the POMV yield is critical. Are you prepared to provide all eligible Alaskans with an equal share of the percentage value derived from their savings contained in the Permanent Fund in the form of a dividend?

A large majority of Alaska citizens like the Permanent Fund Dividend. They use the dividend, often in creative and prudent ways, to live and support their families and children. How many of you really believe you can cut or eliminate the dividend and not get cross-threaded with the citizens?

At this point in my life, I know I will stand with the people and oppose any move to convert the Permanent Fund from a trust account to an endowment that uses an overly generous percentage or that fails to make a fair share allocation to the citizens in the form of a dividend.

If you insist on advancing the POMV concept, it seems to me that putting a 4% POMV with a 50/50 split of the percentage in order to provide for a dividend and fund government services (or whatever the legislature elects to do with the funds), is probably acceptable. If you instead decide to throw caution to the wind by adopting an overly large percentage and then chisel off most of the funds to pay for our large state government the prospect of electoral insurrection and rejection at the polls is likely.

I'll wind up my thoughts here by asking you to read an article I have enclosed by Louis Latham he wrote as a young journalist fifty years ago. Alaska was on the cusp of

exploding with oil revenue. The present in Alaska was dodgy when he wrote the article but the future looked promising, a situation that one might say has been reversed today, at least in some regards. One of the great points made by Latham in this article is that saving a few bucks today for the future was the smart play. He didn't characterize the present as working against future considerations the way I might have but by reading about what was transpiring in Juneau fifty years ago, you might tease out some solutions to the brutal problems you are confronted with in the moment.

I have never believed history is a circle. History in my view is a series of spirals that sometimes overlap, occasionally cross but mostly loops around in a way that gives guidance if not answers to contemporary problems. The task of political leaders in a democracy is to keep the loops and spirals on an upward trajectory. That's all I can ask of you – keep the future of Alaska heading up.

I do not have any hard answers for any of you as you conduct the lawmaking powers for our people but I have do have a few observations that I think square with some of the observations made by Louis Latham fifty years ago about this wonderful place all of us are privileged to call home. The yoke and burden of the present, hard as it may be, should never deflect acting in the best interest of those who will walk behind us.

If you cannot summon the will and votes to address how the earnings of the Permanent Fund will be allocated that includes a fair dividend that is constitutionally guaranteed for the owners of the fund, then at least stop spending the funds in the Earning Reserve Account managed by the Alaska Permanent Fund Corporation.

We have blown through the bulk of our enormous savings accounts set aside for genuine catastrophes. For too long, we have avoided making the hard choices required to build a right-sized and sustainable budget. For years we spent too much of our communal non-renewable mineral resources. Instead of doubling down on spending disconnected from fiscal reality, it is time to act to preserve the best idea Alaska has adopted - the Permanent Fund – and protect the fund in perpetuity by embedding a sensible Permanent Fund Dividend in the Alaska Constitution. Do that and the other problems, demons and heartaches confronting you in the political sphere will resolve and disappear like a plate of King Crab legs at a legislative reception.

With my regards and sincerest hope that you act in the interest of our citizens, I am,

Sincerely, 