

ORAL HISTORY 2016-17-02

Charles P. Wohlforth

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Leslie McCartney, videographer

Series: History of the Permanent Fund

Rich Siefert introduced Charles Wohlforth. He is a columnist for the Alaska Dispatch. Wohlforth co-authored "Saving for the future: my life and the Alaskan Permanent Fund."

Charles Wohlforth said his family came to Alaska in 1966. His father, Eric, was a Wall Street finance attorney and came to Alaska at the request of Bill Egan after the earthquake. The governor greeted their family. Wally Hickel beat Bill Egan that year and his father returned to regular attorney work. He did get involved in writing the statutes dealing with finance. His father was also on the investment advisory board when the Permanent Fund was first created.

Wohlforth wrote the book with Dave Rose. Wohlforth was recruited to write a book with Wally Hickel in the mid-90s. Rose wanted to write a book and hired him to help. Rose died a few days after the book was completed. Wohlforth also wrote a book with Vic Fischer. He talked about his process of writing. Siefert commented about Fischer's book. Siefert asked Wohlforth to talk about pt. 2 of the Alaskan Permanent Fund book. Siefert asked what happened when the permanent fund started to go into operation as a corporation. Dave Rose was the first executive director of the permanent fund.

Wohlforth said this is the period after the constitutional amendment passed in 1976 to about 1980 when the purpose of the instruction of the fund was established. It was the most important period of the creation of the permanent fund. He asked how a democracy creates benefits for people who aren't born yet. It was a unique moment in history. He commented about the 900,000 million dollar lease sale and Hammond's essay on the use of the fund. People had opinions about the use of the funds. The reason it passed was because everyone had an idea about what the use of the funds would be. Elmer Rasmuson said the original purpose was a negative purpose, don't waste the money. From 1976-1980 it was a battle determining what that purpose would be. The purpose now is a fund which is invested outside of Alaska and not used for economic development. It is counter-cyclical. Hammond wanted a dividend. Arliss Sturgulewski wanted it to have inflation proofing. Siefert commented about Sturgulewski and about the experts who talked about oil prices always staying up so income tax could be given up. Five governors met in 1993 and thought it was a terrible mistake and elimination of taxes shouldn't have been done. Wohlforth said even if there was a huge income tax now it wouldn't be enough to cover the budget and it was difficult to predict commodity prices. There was a perception that oil was unlimited. He talked about how money was being spent at that time by the legislature. Siefert talked about the Norwegian fund. Don Leistikow comments about Norway's spending. Siefert commented about Rasmuson's ideas about how to invest the fund. Siefert said there was a group of people who wanted to divest in unethical investments. Wohlforth said Rose objected to any kind of ethical investment rule because the only way to navigate his path was to be completely blind to

anything except investment returns. Rose was successful and people stopped questioning the investing. Wohlforth said Alaska has a more diverse society than Norway. Siefert told a story about Rick Steiner. Wohlforth said in Norway they segregated the oil income from the real economy. They operate their oil wells using alternative energy. Comment from the audience about Norway's government.

Siefert commented about Hammond's influence and the seniority bonus idea. The Zobels argued that it should be based on equity. Wohlforth explained the two concepts. The argument went all the way to the Supreme Court. Wohlforth said the resources do not belong to us as individuals, the resources were transferred to the state to provide state services. The Statehood Act says that explicitly. Siefert commented about the Zobels who were mistreated for years. An unidentified person from the audience asked about the difference in perspective between Hickel and Hammond. Wohlforth said he prefers the Hammond Alaska, a self-reliant and old time Alaska. Hickel was more the developer. Hammond wanted things to stay the way they were. He tried to start an agricultural industry. Hickel wanted more of an urban Alaska. Hammond wanted to conserve what was already there. Hickel was interested in the future and moving into a different kind of Alaska. Hickel was not a supporter of the dividend fund. He saw it as a common good to fund the government. Once it was created Hickel tried to turn it into a community fund. He thought the best thing that could have happened was a much smaller Prudhoe Bay and Alaska would have developed in a better way. So much of the money was wasted. Hugh Malone regretted creating the fund and felt it would distort whatever we did from then on. The permanent fund now contains more financial assets than what every Alaskan owns personally. Someone in the audience asked how they drew the longevity bonus into the permanent fund. Wohlforth said the original concept of the fund when the 900,000 million came in was to have a longevity bonus, but that didn't pass the legislature. The longevity bonuses that were disbursed just came out of the general fund. Murkowski got rid of that. Rose was concerned about the program for the fund. Wohlforth said Rose sent Sheffield a bill for the money that had not been deposited into the fund as it should have been. He said in the early years when the stock market went down there were articles in the newspaper that stated Dave Rose lost five million dollars. Rose's investment decisions would make front page news. As time has passed and the fund is more successful the state is more permissive in the investment rules and the media pays no attention to it at all. There are some questionable areas now such as private equity holdings. Comment about the use of the terms the fund and the dividend. Comment from someone about relying on the earnings reserve. Wohlforth said some legislator's best strategy is to wait until the oil prices go up again. He said because of the earnings reserve just sitting there the crisis isn't conceived of as urgent as it really is. If they spend down the earnings reserve even for one year it just doesn't work anymore. Then we can't function as a state. Money from the corpus can't be taken out without an election. People are thinking in terms of millions instead of billions. Even with a large income tax we would raise 600,000 million dollars towards the 3.2-4 billion dollar deficit. The state tax would have to be close to a federal income tax rate to make any difference. The corpus money is unavailable. Siefert talked about Hickel's comments about the need for having a working government. Wohlforth said the Department of Revenue is down to ten employees in its audit department. The Department of Commerce was cut by over 60 percent last year. The Economic Development section was cut to three employees including all their economists. We are already at the point of eating the seed corn. Wohlforth said there is a weird payout mechanism from the permanent fund. The realized earnings go into the earnings reserve account. All other endowment funds have an investment objective and then whatever that objective is goes for spending. If there is an endowment the federal tax code states that five percent of the endowment has to be spent per year. This is not an endowment - this is an investment fund. The

realized earnings are dividends and interest and capital gains on stocks that were sold. Unrealized earnings are growing and growing and stay in the corpus. He said if the rubber hits the road then he can imagine the governor telling the trustees to sell all the stocks, get all the capital gains and put them in the earnings reserve. That is 25% to a third of the fund. In that sense the corpus is not safe. Siefert said there isn't a clear mandate for the dividend fund. Wohlforth said the governor's veto only kept the money in the earning's account. Comment from the class about the veto and the Wielechowski lawsuit about it. Wohlforth said no state expenditure can happen except for appropriation and appropriation can only happen by a vote of the legislature that is not vetoed by the governor. Wielechowski also thinks that the oil companies are not paying enough and he sees the reduction of the dividend as a head tax. Wielechowski also believes if the governor can veto the dividend at any time then it completely changes the balance of power in Juneau. It means the legislature will never pass a fiscal plan because the governor can take the heat. Siefert said the governor is taking the heat and Wielechowski wants to make the dividend a constitutional amendment. Wohlforth said during Murkowski's Conference of Alaskans there was a proposal to enshrine the dividend in the constitution, but cap it. If that had been done then the fiscal situation would be vastly improved. At the time polling said the public would have supported that. He talked about Knowle's plan. Now no one wants to go first. He would like it to be enshrined in the constitution and capped at a thousand dollars. Anything over that would be available for the government. Siefert worries about the long haul and assuming that returns on the fund will keep putting money into the fund which may not be true. He said it is a risk to guarantee a certain amount out of the fund. Comment from the class about S.B. 21. Wohlforth commented about taxing the oil companies and S.B. 21. He said the oil companies net is not good right now. A comment from the class about the cost of production tripling after S.B. 21.

Siefert reads about the Kuwait offer for the BP Oil Corporation.

Discussion about getting a copy of Rose and Wohlforth's book.