

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

955 SCOMM44: HOUSE POWER ALTERNATIVES STUDY COMM. 1979-80 955

ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

INTRODUCTION AND EXPLANATION OF MARCH 27 DRAFT

There are three main parts to the draft legislation: Chapter 1 establishes a general procedure for distributing any of several kinds of securities to Alaska residents; Chapters 2 through 7 describe the different kinds of securities; and Chapters 8 and 9 provide for a distribution that could be put into effect this year and which would put securities of unquestionable value into the hands of Alaskans (as opposed to some of the more speculative alternatives, such as AGSOC or a share in the gas conditioning plant).

Article 1 of Chapter 1 sets out the purposes of the Program — these are self-explanatory. It houses the Program in the Department of Revenue, and requires the Commissioner to submit at least one and as many as three wealth distribution plans to the legislature each year. Each plan must be accompanied by a financial and legal analysis, and will not go into effect unless enacted as a law or joint resolution.

Article 2 defines residency for the purpose of obtaining benefits under the program. Beneficiaries of any plan are limited to Alaska residents as of an eligibility date specified for that plan. The legislation also sets out the evidence a person must submit to establish a presumption of residency, and certain actions that establish a presumption of non-residency.

Article 3 spells out the general procedures for distributing securities to eligible residents. A small part (5 to 15 percent) of the securities distributed under each plan will be distributed free, in equal portions to each resident who applies for them. This provision assures that everybody gets something, and serves as advertisement for the program. Most of the assets distributed (85 to 95 percent), however, are to be sold to residents at their nominal value. There are at least three major reasons for selling, rather than giving away, the bulk of the assets:

(a) Sale at value is far more likely to survive constitutional challenge than free distribution. [The legislation will be written so that the sales procedures will survive even if the courts disallow free grants.]

(b) Sale at value is unlikely to create any federal tax liability for the recipient, while the IRS may rule that assets received free of charge are taxable income in the year they are received.

(c) People are likely to place a higher value on things they have to pay for than on free gifts.

There are at least three reasons Alaskans would want to buy assets distributed under the program:

(a) We assume that some kind of tax credit scheme will be adopted, and Alaska taxpayers will be allowed to apply any tax credit or refund to the purchase of securities under the plan. Thus, although they will have to make a real choice (between investments and cash), many and probably most Alaskans will be able to avoid any cash outlay.

(b) Most assets will be sold at a "cost" or "conservatively appraised value" intended to satisfy constitutional and federal tax requirements, but they can be expected to earn exceptionally high rates of return in relation to that "cost".

(c) Residents will be able to buy the securities on time, over a ten year period at a carrying cost far less than their expected rate of return.

Alaskans who want to buy securities on time will be issued non-transferable warrants — certificates that allow them to buy a specified number of units each year at a fixed price. While Alaskans who move away will be able to keep the securities they have actually bought, and (with certain important exceptions) to sell them freely, their unused warrants will become invalid.

Article 4 sets out the rights of securities holders. Except for the non-transferable warrants described above, shares in a natural resource trust (which can be transferred or sold only to other resident Alaskans, except by inheritance), and AGSOC shares (whose ownership is restricted by federal law), the assets distributed under the program will be the unrestricted property of the recipients, and can be disposed of as they wish.

Article 5 states that receipt of securities under the program, whether by grant or by purchase, is not taxable income under Alaska law, but that income from those securities, and proceeds from their resale, will be treated like any other income or capital gains. It also provides that if the IRS rules receipt of these securities to be taxable income under federal law, any additional federal tax the recipient is required to pay may be credited against Alaska income taxes.

Article 6 provides for the Commissioner of Revenue to buy and sell securities distributed under the program in order to create an orderly market for them, if an effective private market for those securities did not otherwise develop.

Article 7 (not yet drafted) will define various terms used in the legislation; provide penalties for persons who falsely claim residency or make false statements in order to obtain benefits under the program; and specifies what parts of the legislation will remain valid if other parts are declared unconstitutional.

Chapters 2 through 7 describe the various kinds of assets that can be distributed under the Program. For each kind of asset, the Commissioner of Revenue would have to present a specific plan to be acted on by the legislature.

Alaska Energy Resource Trusts are royalty trusts — devices for passing on a portion of the state's oil and gas royalties directly to holders of certificates in the trust. (See the attached clipping from Fortune magazine. [pp ix-x])

Alaska Industrial Development Projects are major new investments, like the gas pipeline or conditioning plant, in which the state might decide to participate financially. Chapter 3 provides that if the state does make such an investment, the state's ownership and management role should be temporary — through the development phase only — and that the state's shares in the project should ultimately be distributed to Alaskans under this program.

Alaska General Stock Ownership Corporations (AGSOCs) are the familiar Kelso-Gravel idea. Chapter 4 would incorporate the major provisions of the bill reported by the House State Affairs Committee, but (in contrast to the current initiative) would require the legislature to act upon a complete financing plan before creating any AGSOC.

Alaska Investment Funds are regulated investment companies (mutual funds) empowered to invest in the securities of corporations doing business in Alaska, and Alaska Real Estate Trusts are real estate investment trusts (REITs) empowered to invest in Alaska real estate developments. Both kinds of enterprise are essentially passive investments and are in themselves exempt from federal income taxes (like AGSOCs); they are a way of increasing resident Alaskan ownership in major Alaska industry without the state's having to register as a securities underwriter.

Chapter 7 provides for the distribution of securities in existing private enterprises. This provision would allow the State to buy blocks of shares in major Alaska businesses (fish processing plants, airline and communications companies, and the like), and to sell them to residents on easy terms in order to increase resident Alaskan ownership and control in important industries.

Chapters 8 and 9 set out specific wealth distribution programs that could be put into effect by the current legislature. Both are Alaska Energy Resource Trusts.

R.T.



We believe that the effectiveness and credibility of the program demands that there be an early distribution of assets that have a certain, positive value. The first distribution must be one that neither requires a large front-end appropriation of money nor presents any risks to the citizens who receive the assets. Shares in oil and gas royalties --- specifically, royalties from the proved reserves at Prudhoe Bay --- seem to be the only kind of asset that can play this pioneering role.

The Prudhoe Bay Oil and Gas Royalty Trust of 1980 would commit royalties from only some of the leases at Prudhoe Bay, and only those royalties in excess of current levels. Thus, the revenues conveyed to the trust would increase very rapidly with the decontrol of crude oil prices, and then fall off very rapidly as Prudhoe Bay production declined. We suggest the leases be chosen so that the average distribution per capita in the first year is in the \$100 to \$200 range --- large enough that people will have to take it seriously, but (in this first distribution) not enough to make a large dent in available revenues.

The Beaufort Sea Oil and Gas Royalty Trust of 1980 would commit royalties from Beaufort Sea leases sold in 1979. Any revenues produced from those leases would be distributed much later than the Prudhoe Bay royalties, and while the value of the certificates would probably be much greater, they would be a far more speculative property. Conceivably, the two plans could be combined into one plan that provided some certain near-term income, and some less certain but possibly far greater income, say, seven to ten years in the future.

The certificate holders would not have any voice in management of the oil and gas resource itself, and the trust indenture specifically makes the conveyance subject to any existing commitments of royalties. It also preserves the state's option to take royalty in kind --- it therefore creates no obstacles, for example, to fulfilling the Alpetoo

contract or to exchanging royalty gas for gas liquids to be used in Alaska petrochemical development. But the plans will certainly create a greater citizen identification with the North Slope oil and gas resource, and a more intense and informed interest in state and federal policies affecting those resources. - -

These plans would probably make Alaskans more receptive, for example, to state financial participation in the gas line, especially if state involvement can reasonably be expected to accelerate its completion — and thereby the flow of gas royalties. The plans would also create a broadly-based Alaska constituency pressing to maximize the wellhead value of the state's oil and gas, and resisting proposals to give away or discount the state's royalty for any purpose. (After all, the people will recognize, as they may not fully appreciate now, that these decisions involve their own money.)

ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM
DRAFT LEGISLATION

CONTENTS

TITLE	1
CHAPTER 1. ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM	1
ARTICLE 1. GENERAL PROVISIONS	1
Section 100 Findings	1
Section 110. Purposes (a)	1
(b) to (e)	2
Section 115. Alaska Citizens Wealth Distribution Plans	3
(a) to (c)	3
Section 120. Plans submitted to Legislature (a) and (b)	4
(c) and (d)	5
(d) [continued] and (e)	6
ARTICLE 2. ELIGIBILITY FOR BENEFITS	
Section 210. Eligibility for benefits (a) to (d)	7
Section 215. Alaska residency defined (a) to (c)	8
Section 220. Evidence of residency (a) and (b)	9
Section 225. List of persons claiming residency	10
ARTICLE 3. DISTRIBUTION OF ASSETS	11
Section 310. Basic purchase price (a)	11
(b) and (c)	12
Section 315. Free distribution	13
Section 320. First restricted sale (a) to (d)	13
(e) and (f)	14
Section 325. Second restricted sale (a) to (c)	15
(d) and (e)	16
Section 330. Unrestricted sale	17
Section 335. Stock-purchase warrants (a)	18
(b)	19
(c) and (d)	20
Section 340. Use of income tax credits (a) and (b)	21
(c) and (d)	22
ARTICLE 4. OWNERSHIP RIGHTS	23
Section 410. Transfer of assets	23
Section 415. Voting rights	23
ARTICLE 5. TAX TREATMENT	24
Section 510. Receipt of assets not taxable	24
Section 515. Credit for federal taxes paid	24
Section 520. Income not tax-exempt	24
ARTICLE 6. SECURITIES MARKETS	25
ARTICLE 7 MISCELLANEOUS PROVISIONS	26*
Section 700. Definitions	26*
Section 710. Penalties for false statements	26*
Section 720. Savings clauses	26*

CHAPTER 2.	ALASKA ENERGY RESOURCE TRUSTS	27
Section 110.	Alaska Energy Resource Trust defined	27
Section 120.	Distribution of certificates	27
Section 140.	Ownership and transferability	28
CHAPTER 3.	ALASKA INDUSTRIAL DEVELOPMENT PROJECTS	29
Section 110.	Alaska Industrial Development Project defined	29
Section 120.	Intent	29
Section 130.	Alaska Natural Gas Transportation System	30
CHAPTER 4.	ALASKA GENERAL STOCK OWNERSHIP CORPORATIONS	31
ARTICLE 1.	GENERAL PROVISIONS	31
Section 110.	Alaska General Stock Ownership Corporation defined	31
ARTICLE 2		*
CHAPTER 5.	ALASKA INVESTMENT FUNDS	32
Section 110.	Alaska Investment Fund defined	32
		*
CHAPTER 6.	ALASKA REAL ESTATE TRUSTS	33
Section 110.	Alaska Real Estate Trust defined	33
		*
CHAPTER 7.	EXISTING PRIVATE ENTERPRISES	34
Section 110.	Existing private enterprise defined	34
CHAPTER 8.	PRUDHOE BAY OIL AND GAS ROYALTY TRUST PLAN OF 1980	35
ARTICLE 1.	FORMATION OF TRUST	
Section 110.	Creation of trust	35
Section 120.	Trust indenture	35
Section 130.	Amendments to trust indenture	35
Section 140.	Purpose	36
Section 150.	The trust estate	36
Section 155.	Conveyance of royalties (a) through (c)	36
	(c) [continued] through (d)	37
Section 160.	Rule against perpetuities	37
ARTICLE 2.	TRUSTEE	38
Section 210.	Selection of trustee and successor trustees (a) to (d)	38
Section 220.	Powers and duties of trustee	39
Section 230.	No power to engage in business or make investments	40
Section 240.	Liability of trustee	40
Section 250.	Compensation of trustee	40
Section 260.	Investment of cash reserves	40
Section 270.	Payment of liabilities (a)	40
	(b)	41
Section 280.	Resignation and termination of trustee (a)	41
	(b)	42

* Drafting incomplete as of 27 March, 1980.

-viii-(B2)

DRAFT OF 27 MARCH, 1980 (A.T.)
Supersedes all previous drafts

ARTICLE 3. TERMINATION OF TRUST AND LIQUIDATION	42
Section 310. Duration, revocation, and termination of trust	42
Section 320. Liquidation	42
ARTICLE 4 BENEFICIAL INTERESTS	43
Section 410. Creation of beneficial shares and certificates	43
Section 420. Rights of certificate holders (a)	44
(b) and (c)	45
Section 430. Execution of certificates	45
Section 440. Registration and transfer of units	45
Section 450. Determination and ownership of certificates	46
ARTICLE 5. ACCOUNTING AND DISTRIBUTION	47
Section 510. Fiscal year and accounting method (a) and (b)	47
Section 520. Distributions (a) and (b)	47
Section 530. Tax reporting	48
Section 540. Reports to certificate holders	48
ARTICLE 6. MEETINGS	48
Section 610. Meetings of certificate holders (a) to (c)	48
(d)	49
Section 620. Voting	49
Section 630. Conduct of meetings	49
ARTICLE 7. GENERAL PROVISIONS	50
Section 710. Inspection of trustee's books	50
Section 720. Definitions	50
CHAPTER 8. BEAUFORT SEA OIL AND GAS ROYALTY TRUST OF 1980	51
[The article and section titles will be the same as for Chapter 7]	

R.T.

Personal Investing

Trusts That Rake Royalties Off the Top

by Aimée L. Morner

Inflation hedgers flocking into natural-source investments have been eyeing the unusual vehicles known as royalty trusts. These trusts, a few of which have been around since the early 1950's, are unincorporated enterprises that act as conduits for distributing royalty income to investors. Four of the five large publicly traded trusts (see table) derive their income from royalties on sales of oil and gas; the other, Mesabi Trust, gets its royalties from iron ore. Not surprisingly, the oil and gas trusts have risen the most in the last few years, and in mid-March a big new one—Houston Oil Royalty Trust—was about to come to market.

All of the royalty trusts share some common characteristics. None of them owns real property; instead, they hold interests in royalties from properties owned or leased to, one or more operating companies. The royalties, figured as a certain percentage of sales, are paid "off the top"—i.e., before the operator makes any deductions for expenses or taxes. The trusts bear none of the risks or costs of drilling or mining. In fact, they are required by the Internal Revenue Service to remain "passive" and, in addition, to pay out virtually all their earnings.

In return, IRS rulings allow the trusts, and investors in their "units of beneficial interest," some tax breaks. The trusts themselves pay no federal income taxes, and the IRS takes the view that investors have a stake in the assets that produce income for the trust. Consequently, part of the cash payout is regarded as depletion, a return of capital, so shareholders pay income tax on that portion.

Bookkeeping is tough

The yields on most of the trusts are fairly generous. The highest—11.4 percent for Mesabi Trust—is more than twice the yield on the stock of Cleveland-Cliffs Iron, the nation's largest iron-ore producer. Estimated yields on the other trusts range between 5.6 percent for North European Oil Roy-

alty Trust to 8.1 percent for Mesa Royalty Trust. By comparison, the yield on the S.&P. index of nine domestic oil companies is a slim 3.3 percent.

Figuring the taxes on the trusts' yields is nettlesome, but the bookkeeping is worth the trouble. Investors who have bought into oil and gas trusts in the last few years take "cost depletion," which involves using a depletion rate that is determined annually for each trust by independent engineers. The rates vary—from about 4 percent (an estimate) for Mesa to between 7 and 8 percent for the other three in the table.

The taxpayer applies the depletion rate to the cost of his units. If the rate is 7 percent, for example, and the units have a cost basis of \$40, then \$2.80 is considered a return of capital, and the cost of the units is reduced by that amount. Most of the time the depletion calculation will yield a figure lower than the payout; the rest of the cash distribution is taxed as ordinary income. (The treatment of this excess is dif-

ferent for Mesabi unit-holders. Once its units have been held for a period of time—it varies depending on when they were bought—the excess payout is taxed as a capital gain.)

Even though the underlying assets are being used up, the few analysts who follow the oil and gas trusts expect cash distributions to increase. Frederick A. Lynn, president of F.A.L. Capital Management, has been buying these trusts because he expects oil and gas prices to keep rising, which will not only lift royalties but also cause operators to press harder for more production.

Investors trying to figure out how much production is ultimately possible will be frustrated. While the Securities and Exchange Commission requires most publicly traded companies to report information about the size of their hydrocarbon reserves, some royalty trusts can duck the requirement if the data are either unavailable or too costly to get.

And that's the case with three of the four

THE PAYOUTS KEEP GROWING

	CASH DISTRIBUTION				YIELD	
	1979	1980 estimate	1981 estimate	Rate of growth, compounded 1975-1979	1975	Recent (based on est. 1980 distribution)
North European Oil Royalty Trust	\$4.07	\$5.00	\$7.50	37.2%	6.9%	5.6%
Marine Petroleum Trust	\$2.25	\$2.80	\$3.30	45.7%	8.0%	7.8%
Tidelands Royalty Trust B	\$1.9	\$2.80	\$3.60	N.A.	N.A.	6.7%
Mesa Royalty Trust	N.A.	\$3.05	\$3.30	N.A.	N.A.	8.1%
Mesabi Trust	\$1.39	\$1.65	\$1.80	4.8%	15.9%	11.4%

Two of the four oil and gas royalty trusts shown here—North European and Marine—have boosted cash distributions to investors at a heady pace since 1975. Of the remaining two, Mesa is a newcomer that sprang up last year, and Tidelands, which first began to distribute its royalty income in 1977, has nearly quadrupled its payout in the past two years. The other trust in the group, Mesabi, gets its income from royalties on shipments of iron-

ore pellets, and its performance has been leaden. All the estimates for 1980 and 1981 were compiled from forecasts by various analysts and portfolio managers. Though the prices of trust units have risen significantly, the yields, based on the 1980 estimates, have not changed all that radically. A portion of the payouts of all the trusts, with the possible exception of Mesa, can be treated for tax purposes as a return of capital rather than income.

oil and gas trusts. North European Oil derives royalties from properties in West Germany that are leased to Mobil, Royal Dutch, and Exxon, which never whisper a word about the size of those reserves. Gulf Oil is just as tight-lipped about the reserves in fields it operates partly for Marine Petroleum Trust and partly for Tidelands Royalty Trust B.

Investors know a lot more about the reserves associated with Mesa Royalty Trust because of estimates in a prospectus issued last November, when the trust was spun off to shareholders of Mesa Petroleum. Independent petroleum engineers estimated proven oil and gas reserves and calculated their present value, discounting the expected income at an annual rate of 10 percent. This worked out to \$27.75 per unit, but the assumptions about the future price of oil and gas that go into such calculations are considered to be very conservative. Consequently, the units sold for about \$30 once they began trading. They subsequently rose as high as \$42, and were recently selling for about \$35.

Real-world expectations about price increases, particularly for gas, are quite bullish, for good reason. Under the Natural Gas Policy Act of 1978, prices of newly discovered gas—now about \$3 per 1,000 cubic feet (mcf)—may rise 10 percent a year until 1985. At that time controls will be lifted, and some analysts expect new gas to sell at a parity with oil. If they are right, even if oil were to sell at only \$30 a barrel, the price of gas will rise some 65 percent, to \$5 per mcf, in five years, since that quantity of natural gas has one-sixth as much heating power as a barrel of oil.

Life in new leases?

Buyers of Marine Petroleum Trust are betting primarily on the higher gas prices. Marine's royalties—a low 0.75 percent of sales—are derived solely from the trust's interest in 500,000 acres leased to Gulf Oil in the Gulf of Mexico. Half of that acreage now produces oil and gas, much of it coming from "mature" fields. While Gulf could yet find oil or gas in the other half, investors are primarily intrigued that some 70



In the last two years, the standout in this group has been North European, whose units have doubled in price. But over the period shown, Tidelands' shares have gone up even more—from only about \$1 in 1975, to \$42 recently. Shares of Marine (which owns a third of Tidelands' units) have retreated somewhat since reaching a record level last year. With the exception of Mesa and Mesabi, the trusts have relatively few units outstanding, and their prices tend to be quite volatile.

percent of Marine's royalties come from "old" natural gas with an average price of only \$1.20 per mcf. As contracts expire, or if new gas is discovered, that figure will inevitably go a lot higher. And the kicker in Marine is its 32.6 percent equity interest in Tidelands Royalty Trust B.

Tidelands is primarily a speculative bet on an increase in production. The Tidelands trust agreement with Gulf Oil covers 1.3 million acres offshore, and Gulf has so far leased only 40,000 of them. Analysts expect Gulf to seek new leases in the area and to spend freely on wildcat drilling. Tidelands will also benefit, though not as much as Marine, from rising prices: the Tidelands gas sells at an average price of around \$1.80 per mcf.

The price on much of the gas in which Mesa Royalty Trust has an interest is strictly bargain-basement. Close to 80 percent of the gas in its largest field sells under contract at a paltry 25 cents per mcf. The contract won't expire until 1989, but new gas from the same field would, of course, sell for a lot more.

Mesa investors are buying units in the face of an unusual risk: the IRS hasn't yet ruled that it can be treated as a trust. Regardless of how this issue is resolved, a hefty portion of the payout will almost certainly be taxed as ordinary income because Mesa's depletion rate this year is expected to be so low.

The new trust in the wings, an offspring of Houston Oil & Minerals, also lacks an IRS ruling on its tax status. The properties in which Houston Oil Royalty Trust has an interest include a substantial amount of unexplored acreage that would be worth a lot if Houston Oil & Minerals made dis-

coveries there. The company's success in finding new reserves, however, has recently been only fair.

The hottest trust in the market lately has been North European. Unit holders have benefited from the rise in the value of the D-mark because the operating companies involved sell what they produce in West Germany, where the fields are. In the last three years, the trust's royalty income, in dollars, has more than doubled. Carey E. Tharp Jr., an analyst at Stillman, Maynard & Co., is convinced the payout will continue to spurt ahead. He points out that more and more of the gas sold in Germany is coming from a field that produces royalties at a rate 7.5 times higher than the rate on sales from the field that is currently producing much of the trust's income.

A direct link to inflation

The iron trust, Mesabi, hasn't been particularly popular with investors lately. Its royalties come from properties in Minnesota's Mesabi range—the nation's largest iron-ore reserve. They are mined by Reserve Mining, which ships pellets made from the ore to the two steelmakers—Armco and Republic—who jointly own the company. Reserve pays Mesabi a base royalty that depends on the volume of pellets shipped, which means the trust's income is sensitive to the demand for steel. The base is also adjusted by a factor that reflects the annual change in the producer price index. That inflation hedge hasn't swayed investors, who are aware that Reserve's pellet factory could be struck this August when a labor contract expires. After the workers went out three years ago, Mesabi's cash distributions were slashed.

DRAFT: ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

A BILL

For an Act entitled: "An Act establishing the Alaska Citizens Wealth Ownership Program, and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. AS AA is amended by adding a new chapter to read:

CHAPTER 1. ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

ARTICLE 1. GENERAL PROVISIONS

§AA.BB.100 FINDINGS. The Legislature hereby finds —

R.T. → (1) that it is in the public interest and in the furtherance of a public purpose to distribute a portion of Alaska's energy wealth to the people of Alaska in the form of income-producing assets in order to increase their involvement and awareness regarding the management of the state's natural resources, in the development of its local industry, and in the capitalist system;

R.T. → (2) that a mechanism by which the state distributes a portion of its resource royalties will best promote the state's interest in producing a more personal and direct stake in the impact of decisions involving the state's natural resource production and development; and

(3) that a mechanism by which the state distributes a portion of its ownership interests in business enterprises will best promote the state's interest in providing a more personal and direct stake in the impact of decisions involving state investments, development of local industry, as well as a more personal and direct stake in the capitalist system.

§AA.BB.110. PURPOSES. (a) The Alaska Citizens Wealth Ownership Program (hereinafter the Program) is hereby established in the Department of Revenue.

DRAFT LEGISLATION FOR AN
ALASKA CITIZENS WEALTH OWNERSHIP PLAN

Prepared for the
OFFICE OF THE GOVERNOR
STATE OF ALASKA

By
ARLON R. TUSSING & ASSOCIATES, INC.
and
PRESTON, THORGRMISON, HOLMAN & ELLIS

27 March, 1980

ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

INTRODUCTION AND EXPLANATION OF MARCH 27 DRAFT

There are three main parts to the draft legislation: Chapter 1 establishes a general procedure for distributing any of several kinds of securities to Alaska residents; Chapters 2 through 7 describe the different kinds of securities; and Chapters 8 and 9 provide for a distribution that could be put into effect this year and which would put securities of unquestionable value into the hands of Alaskans (as opposed to some of the more speculative alternatives, such as AGSOC or a share in the gas conditioning plant).

Article 1 of Chapter 1 sets out the purposes of the Program -- these are self-explanatory. It houses the Program in the Department of Revenue, and requires the Commissioner to submit at least one and as many as three wealth distribution plans to the legislature each year. Each plan must be accompanied by a financial and legal analysis, and will not go into effect unless enacted as a law or joint resolution.

Article 2 defines residency for the purpose of obtaining benefits under the program. Beneficiaries of any plan are limited to Alaska residents as of an eligibility date specified for that plan. The legislation also sets out the evidence a person must submit to establish a presumption of residency, and certain actions that establish a presumption of non-residency.

Article 3 spells out the general procedures for distributing securities to eligible residents. A small part (5 to 15 percent) of the securities distributed under each plan will be distributed free, in equal portions to each resident who applies for them. This provision assures that everybody gets something, and serves as advertisement for the program. Most of the assets distributed (85 to 95 percent), however, are to be sold to residents at their nominal value. There are at least three major reasons for selling, rather than giving away, the bulk of the assets:

(a) Sale at value is far more likely to survive constitutional challenge than free distribution. [The legislation will be written so that the sales procedures will survive even if the courts disallow free grants.]

(b) Sale at value is unlikely to create any federal tax liability for the recipient, while the IRS may rule that assets received free of charge are taxable income in the year they are received.

(c) People are likely to place a higher value on things they have to pay for than on free gifts.

There are at least three reasons Alaskans would want to buy assets distributed under the program:

(a) We assume that some kind of tax credit scheme will be adopted, and Alaska taxpayers will be allowed to apply any tax credit or refund to the purchase of securities under the plan. Thus, although they will have to make a real choice (between investments and cash), many and probably most Alaskans will be able to avoid any cash outlay.

(b) Most assets will be sold at a "cost" or "conservatively appraised value" intended to satisfy constitutional and federal tax requirements, but they can be expected to earn exceptionally high rates of return in relation to that "cost".

(c) Residents will be able to buy the securities on time, over a ten year period at a carrying cost far less than their expected rate of return.

Alaskans who want to buy securities on time will be issued non-transferable warrants -- certificates that allow them to buy a specified number of units each year at a fixed price. While Alaskans who move away will be able to keep the securities they have actually bought, and (with certain important exceptions) to sell them freely, their unused warrants will become invalid.

Article 4 sets out the rights of securities holders. Except for the non-transferable warrants described above, shares in a natural resource trust (which can be transferred or sold only to other resident Alaskans, except by inheritance), and AGSOC shares (whose ownership is restricted by federal law), the assets distributed under the program will be the unrestricted property of the recipients, and can be disposed of as they wish.

Article 5 states that receipt of securities under the program, whether by grant or by purchase, is not taxable income under Alaska law, but that income from those securities, and proceeds from their resale, will be treated like any other income or capital gains. It also provides that if the IRS rules receipt of these securities to be taxable income under federal law, any additional federal tax the recipient is required to pay may be credited against Alaska income taxes.

Article 6 provides for the Commissioner of Revenue to buy and sell securities distributed under the program in order to create an orderly market for them, if an effective private market for those securities did not otherwise develop.

Article 7 (not yet drafted) will define various terms used in the legislation; provide penalties for persons who falsely claim residency or make false statements in order to obtain benefits under the program; and specifies what parts of the legislation will remain valid if other parts are declared unconstitutional.

Chapters 2 through 7 describe the various kinds of assets that can be distributed under the Program. For each kind of asset, the Commissioner of Revenue would have to present a specific plan to be acted on by the legislature.

Alaska Energy Resource Trusts are royalty trusts — devices for passing on a portion of the state's oil and gas royalties directly to holders of certificates in the trust. (See the attached clipping from Fortune magazine. [pp ix-x])

Alaska Industrial Development Projects are major new investments, like the gas pipeline or conditioning plant, in which the state might decide to participate financially. Chapter 3 provides that if the state does make such an investment, the state's ownership and management role should be temporary — through the development phase only — and that the state's shares in the project should ultimately be distributed to Alaskans under this program.

Alaska General Stock Ownership Corporations (AGSOCs) are the familiar Kelso-Gravel idea. Chapter 4 would incorporate the major provisions of the bill reported by the House State Affairs Committee, but (in contrast to the current initiative) would require the legislature to act upon a complete financing plan before creating any AGSOC.

Alaska Investment Funds are regulated investment companies (mutual funds) empowered to invest in the securities of corporations doing business in Alaska, and Alaska Real Estate Trusts are real estate investment trusts (REITs) empowered to invest in Alaska real estate developments. Both kinds of enterprise are essentially passive investments and are in themselves exempt from federal income taxes (like AGSOCs); they are a way of increasing resident Alaskan ownership in major Alaska industry without the state's having to register as a securities underwriter.

Chapter 7 provides for the distribution of securities in existing private enterprises. This provision would allow the State to buy blocks of shares in major Alaska businesses (fish processing plants, airline and communications companies, and the like), and to sell them to residents on easy terms in order to increase resident Alaskan ownership and control in important industries.

Chapters 8 and 9 set out specific wealth distribution programs that could be put into effect by the current legislature. Both are Alaska Energy Resource Trusts.

We believe that the effectiveness and credibility of the program demands that there be an early distribution of assets that have a certain, positive value. The first distribution must be one that neither requires a large front-end appropriation of money nor presents any risks to the citizens who receive the assets. Shares in oil and gas royalties --- specifically, royalties from the proved reserves at Prudhoe Bay --- seem to be the only kind of asset that can play this pioneering role.

The Prudhoe Bay Oil and Gas Royalty Trust of 1980 would commit royalties from only some of the leases at Prudhoe Bay, and only those royalties in excess of current levels. Thus, the revenues conveyed to the trust would increase very rapidly with the decontrol of crude oil prices, and then fall off very rapidly as Prudhoe Bay production declined. We suggest the leases be chosen so that the average distribution per capita in the first year is in the \$100 to \$200 range --- large enough that people will have to take it seriously, but (in this first distribution) not enough to make a large dent in available revenues.

The Beaufort Sea Oil and Gas Royalty Trust of 1980 would commit royalties from Beaufort Sea leases sold in 1979. Any revenues produced from those leases would be distributed much later than the Prudhoe Bay royalties, and while the value of the certificates would probably be much greater, they would be a far more speculative property. Conceivably, the two plans could be combined into one plan that provided some certain near-term income, and some less certain but possibly far greater income, say, seven to ten years in the future.

The certificate holders would not have any voice in management of the oil and gas resource itself, and the trust indenture specifically makes the conveyance subject to any existing commitments of royalties. It also preserves the state's option to take royalty in kind --- it therefore creates no obstacles, for example, to fulfilling the Alpetcoo

contract or to exchanging royalty gas for gas liquids to be used in Alaska petrochemical development. But the plans will certainly create a greater citizen identification with the North Slope oil and gas resource, and a more intense and informed interest in state and federal policies affecting those resources. - -

These plans would probably make Alaskans more receptive, for example, to state financial participation in the gas line, especially if state involvement can reasonably be expected to accelerate its completion — and thereby the flow of gas royalties. The plans would also create a broadly-based Alaska constituency pressing to maximize the wellhead value of the state's oil and gas, and resisting proposals to give away or discount the state's royalty for any purpose. (After all, the people will recognize, as they may not fully appreciate now, that these decisions involve their own money.)

ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM
DRAFT LEGISLATION

CONTENTS

TITLE	1
CHAPTER 1. ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM	1
ARTICLE 1. GENERAL PROVISIONS	1
Section 100 Findings	1
Section 110. Purposes (a)	1
(b) to (e)	2
Section 115. Alaska Citizens Wealth Distribution Plans	
(a) to (c)	3
Section 120. Plans submitted to Legislature (a) and (b)	4
(c) and (d)	5
(d) [continued] and (e)	6
ARTICLE 2. ELIGIBILITY FOR BENEFITS	
Section 210. Eligibility for benefits (a) to (d)	7
Section 215. Alaska residency defined (a) to (c)	8
Section 220. Evidence of residency (a) and (b)	9
Section 225. List of persons claiming residency	10
ARTICLE 3. DISTRIBUTION OF ASSETS	11
Section 310. Basic purchase price (a)	11
(b) and (c)	12
Section 315. Free distribution	13
Section 320. First restricted sale (a) to (d)	13
(e) and (f)	14
Section 325. Second restricted sale (a) to (c)	15
(d) and (e)	16
Section 330. Unrestricted sale	17
Section 335. Stock-purchase warrants (a)	18
(b)	19
(c) and (d)	20
Section 340. Use of income tax credits (a) and (b)	21
(c) and (d)	22
ARTICLE 4. OWNERSHIP RIGHTS	23
Section 410. Transfer of assets	23
Section 415. Voting rights	23
ARTICLE 5. TAX TREATMENT	24
Section 510. Receipt of assets not taxable	24
Section 515. Credit for federal taxes paid	24
Section 520. Income not tax-exempt	24
ARTICLE 6. SECURITIES MARKETS	25
ARTICLE 7 MISCELLANEOUS PROVISIONS	26*
Section 700. Definitions	26*
Section 710. Penalties for false statements	26*
Section 720. Savings clauses	26*

CHAPTER 2.	ALASKA ENERGY RESOURCE TRUSTS	27
Section 110.	Alaska Energy Resource Trust defined	27
Section 120.	Distribution of certificates	27
Section 140.	Ownership and transferability	28
CHAPTER 3.	ALASKA INDUSTRIAL DEVELOPMENT PROJECTS	29
Section 110.	Alaska Industrial Development Project defined	29
Section 120.	Intent	29
Section 130.	Alaska Natural Gas Transportation System	30
CHAPTER 4.	ALASKA GENERAL STOCK OWNERSHIP CORPORATIONS	31
ARTICLE 1.	GENERAL PROVISIONS	31
Section 110.	Alaska General Stock Ownership Corporation defined	31
ARTICLE 2		*
CHAPTER 5.	ALASKA INVESTMENT FUNDS	32
Section 110.	Alaska Investment Fund defined	32
		*
CHAPTER 6.	ALASKA REAL ESTATE TRUSTS	33
Section 110.	Alaska Real Estate Trust defined	33
		*
CHAPTER 7.	EXISTING PRIVATE ENTERPRISES	34
Section 110.	Existing private enterprise defined	34
CHAPTER 8.	PRUDHOE BAY OIL AND GAS ROYALTY TRUST PLAN OF 1980	35
ARTICLE 1.	FORMATION OF TRUST	
Section 110.	Creation of trust	35
Section 120.	Trust indenture	35
Section 130.	Amendments to trust indenture	35
Section 140.	Purpose	36
Section 150.	The trust estate	36
Section 155.	Conveyance of royalties (a) through (c)	36
	(c)[continued] through (d)	37
Section 160.	Rule against perpetuities	37
ARTICLE 2.	TRUSTEE	38
Section 210.	Selection of trustee and successor trustees (a) to (d)	38
Section 220.	Powers and duties of trustee	39
Section 230.	No power to engage in business or make investments	40
Section 240.	Liability of trustee	40
Section 250.	Compensation of trustee	40
Section 260.	Investment of cash reserves	40
Section 270.	Payment of liabilities (a)	40
	(b)	41
Section 280.	Resignation and termination of trustee (a)	41
	(b)	42

* Drafting incomplete as of 27 March, 1980.

-viii-(B2)

DRAFT OF 27 MARCH, 1980 (A.T.)
Supersedes all previous drafts

ARTICLE 3. TERMINATION OF TRUST AND LIQUIDATION	42
Section 310. Duration, revocation, and termination of trust	42
Section 320. Liquidation	42
ARTICLE 4 BENEFICIAL INTERESTS	43
Section 410. Creation of beneficial shares and certificates	43
Section 420. Rights of certificate holders (a)	44
(b) and (c)	45
Section 430. Execution of certificates	45
Section 440. Registration and transfer of units	45
Section 450. Determination and ownership of certificates	46
ARTICLE 5. ACCOUNTING AND DISTRIBUTION	47
Section 510. Fiscal year and accounting method (a) and (b)	47
Section 520. Distributions (a) and (b)	47
Section 530. Tax reporting	48
Section 540. Reports to certificate holders	48
ARTICLE 6. MEETINGS	48
Section 610. Meetings of certificate holders (a) to (c)	48
(d)	49
Section 620. Voting	49
Section 630. Conduct of meetings	49
ARTICLE 7. GENERAL PROVISIONS	50
Section 710. Inspection of trustee's books	50
Section 720. Definitions	50
CHAPTER 8. BEAUFORT SEA OIL AND GAS ROYALTY TRUST OF 1980	51
[The article and section titles will be the same as for Chapter 7]	

Personal Investing

Trusts That Rake Royalties Off the Top by Aimée L. Morner

Inflation hedgers flocking into natural-resource investments have been eyeing some unusual vehicles known as royalty trusts. These trusts, a few of which have been around since the early 1950's, are unincorporated enterprises that act as conduits for distributing royalty income to investors. Four of the five large publicly traded trusts (see table) derive their income from royalties on sales of oil and gas; the other, Mesabi Trust, gets its royalties from iron ore. Not surprisingly, the oil and gas trusts have risen the most in the last few years, and in mid-March a big new one—Houston Oil Royalty Trust—was about to come to market.

All of the royalty trusts share some common characteristics. None of them owns any real property; instead, they hold interests in royalties from properties owned by, or leased to, one or more operating companies. The royalties, figured as a certain percentage of sales, are paid "off the top"—i.e., before the operator makes any deductions for expenses or taxes. The trusts thus bear none of the risks or costs of drilling or mining. In fact, they are required by the Internal Revenue Service to remain "passive" and, in addition, to pay out virtually all their earnings.

In return, IRS rulings allow the trusts, and investors in their "units of beneficial interest," some tax breaks. The trusts themselves pay no federal income taxes, and the IRS takes the view that investors have a stake in the assets that produce income for the trust. Consequently, part of the cash payout is regarded as depletion, i.e., a return of capital, so shareholders pay no income tax on that portion.

The bookkeeping is tough

The yields on most of the trusts are fairly generous. The highest—11.4 percent for Mesabi Trust—is more than twice the yield on the stock of Cleveland-Cliffs Iron, the nation's largest iron-ore producer. Estimated yields on the other trusts range between 5.6 percent for North European Oil Roy-

alty Trust to 8.1 percent for Mesa Royalty Trust. By comparison, the yield on the S.&P. index of nine domestic oil companies is a slim 3.3 percent.

Figuring the taxes on the trusts' yields is nettlesome, but the bookkeeping is worth the trouble. Investors who have bought into oil and gas trusts in the last few years take "cost depletion," which involves using a depletion rate that is determined annually for each trust by independent engineers. The rates vary—from about 4 percent (an estimate) for Mesa to between 7 and 8 percent for the other three in the table.

The taxpayer applies the depletion rate to the cost of his units. If the rate is 7 percent, for example, and the units have a cost basis of \$40, then \$2.80 is considered a return of capital, and the cost of the units is reduced by that amount. Most of the time the depletion calculation will yield a figure lower than the payout; the rest of the cash distribution is taxed as ordinary income. (The treatment of this excess is dif-

ferent for Mesabi unit-holders. Once its units have been held for a period of time—it varies depending on when they were bought—the excess payout is taxed as a capital gain.)

Even though the underlying assets are being used up, the few analysts who follow the oil and gas trusts expect cash distributions to increase. Frederick A. Lynn, president of F.A.L. Capital Management, has been buying these trusts because he expects oil and gas prices to keep rising, which will not only lift royalties but also cause operators to press harder for more production.

Investors trying to figure out how much production is ultimately possible will be frustrated. While the Securities and Exchange Commission requires most publicly traded companies to report information about the size of their hydrocarbon reserves, some royalty trusts can duck the requirement if the data are either unavailable or too costly to get.

And that's the case with three of the four

THE PAYOUTS KEEP GROWING

	CASH DISTRIBUTION				YIELD	
	1979	1980 estimate	1981 estimate	Rate of growth, compounded 1975-1979	1975	Recent (based on est. 1980 distribution)
North European Oil Royalty Trust	\$4.07	\$5.00	\$7.50	37.2%	6.9%	5.6%
Marine Petroleum Trust	\$2.25	\$2.80	\$3.30	45.7%	8.0%	7.8%
Tidelands Royalty Trust B	\$1.94	\$2.80	\$3.60	N.A.	N.A.	6.7%
Mesa Royalty Trust	N.A.	\$3.05	\$3.30	N.A.	N.A.	8.1%
Mesabi Trust	\$1.39	\$1.65	\$1.80	4.8%	15.9%	11.4%

Two of the four oil and gas royalty trusts shown here—North European and Marine—have boosted cash distributions to investors at a heady pace since 1975. Of the remaining two, Mesa is a newcomer that sprang up last year, and Tidelands, which first began to distribute its royalty income in 1977, has nearly quadrupled its payout in the past two years. The other trust in the group, Mesabi, gets its income from royalties on shipments of iron-

ore pellets, and its performance has been leaden. All the estimates for 1980 and 1981 were compiled from forecasts by various analysts and portfolio managers. Though the prices of trust units have risen significantly, the yields, based on the 1980 estimates, have not changed all that radically. A portion of the payouts of all the trusts, with the possible exception of Mesa, can be treated for tax purposes as a return of capital rather than income.

oil and gas trusts. North European Oil derives royalties from properties in West Germany that are leased to Mobil, Royal Dutch, and Exxon, which never whisper a word about the size of those reserves. Gulf Oil is just as tight-lipped about the reserves in fields it operates partly for Marine Petroleum Trust and partly for Tidelands Royalty Trust B.

Investors know a lot more about the reserves associated with Mesa Royalty Trust because of estimates in a prospectus issued last November, when the trust was spun off to shareholders of Mesa Petroleum. Independent petroleum engineers estimated proven oil and gas reserves and calculated their present value, discounting the expected income at an annual rate of 10 percent. This worked out to \$27.75 per unit, but the assumptions about the future price of oil and gas that go into such calculations are considered to be very conservative. Consequently, the units sold for about \$30 once they began trading. They subsequently rose as high as \$42, and were recently selling for about \$35.

Real-world expectations about price increases, particularly for gas, are quite bullish, for good reason. Under the Natural Gas Policy Act of 1978, prices of newly discovered gas—now about \$3 per 1,000 cubic feet (mcf)—may rise 10 percent a year until 1985. At that time controls will be lifted, and some analysts expect new gas to sell at a parity with oil. If they are right, even if oil were to sell at only \$30 a barrel, the price of gas will rise some 65 percent, to \$5 per mcf, in five years, since that quantity of natural gas has one-sixth as much heating power as a barrel of oil.

Life in new leases?

Buyers of Marine Petroleum Trust are betting primarily on the higher gas prices. Marine's royalties—a low 0.75 percent of sales—are derived solely from the trust's interest in 500,000 acres leased to Gulf Oil in the Gulf of Mexico. Half of that acreage now produces oil and gas, much of it coming from "mature" fields. While Gulf could yet find oil or gas in the other half, investors are primarily intrigued that some 70



In the last two years, the standout in this group has been North European, whose units have doubled in price. But over the period shown, Tidelands' shares have gone up even more—from only about \$1 in 1975, to \$42 recently. Shares of Marine (which owns a third of Tidelands' units) have retreated somewhat since reaching a record level last year. With the exception of Mesa and Mesabi, the trusts have relatively few units outstanding, and their prices tend to be quite volatile.

percent of Marine's royalties come from "old" natural gas with an average price of only \$1.20 per mcf. As contracts expire, or if new gas is discovered, that figure will inevitably go a lot higher. And the kicker in Marine is its 32.6 percent equity interest in Tidelands Royalty Trust B.

Tidelands is primarily a speculative bet on an increase in production. The Tidelands trust agreement with Gulf Oil covers 1.3 million acres offshore, and Gulf has so far leased only 40,000 of them. Analysts expect Gulf to seek new leases in the area and to spend freely on wildcat drilling. Tidelands will also benefit, though not as much as Marine, from rising prices: the Tidelands gas sells at an average price of around \$1.80 per mcf.

The price on much of the gas in which Mesa Royalty Trust has an interest is strictly bargain-basement. Close to 80 percent of the gas in its largest field sells under contract at a paltry 25 cents per mcf. The contract won't expire until 1989, but new gas from the same field would, of course, sell for a lot more.

Mesa investors are buying units in the face of an unusual risk: the IRS hasn't yet ruled that it can be treated as a trust. Regardless of how this issue is resolved, a hefty portion of the payout will almost certainly be taxed as ordinary income because Mesa's depletion rate this year is expected to be so low.

The new trust in the wings, an offspring of Houston Oil & Minerals, also lacks an IRS ruling on its tax status. The properties in which Houston Oil Royalty Trust has an interest include a substantial amount of unexplored acreage that would be worth a lot if Houston Oil & Minerals made dis-

coveries there. The company's success in finding new reserves, however, has recently been only fair.

The hottest trust in the market lately has been North European. Unit holders have benefited from the rise in the value of the D-mark because the operating companies involved sell what they produce in West Germany, where the fields are. In the last three years, the trust's royalty income, in dollars, has more than doubled. Carey E. Tharp Jr., an analyst at Stillman, Maynard & Co., is convinced the payout will continue to spurt ahead. He points out that more and more of the gas sold in Germany is coming from a field that produces royalties at a rate 7.5 times higher than the rate on sales from the field that is currently producing much of the trust's income.

A direct link to inflation

The iron trust, Mesabi, hasn't been particularly popular with investors lately. Its royalties come from properties in Minnesota's Mesabi range—the nation's largest iron-ore reserve. They are mined by Reserve Mining, which ships pellets made from the ore to the two steelmakers—Armco and Republic—who jointly own the company. Reserve pays Mesabi a base royalty that depends on the volume of pellets shipped, which means the trust's income is sensitive to the demand for steel. The base is also adjusted by a factor that reflects the annual change in the producer price index. That inflation hedge hasn't swayed investors, who are aware that Reserve's pellet factory could be struck this August when a labor contract expires. After the workers went out three years ago, Mesabi's cash distributions were slashed.

DRAFT: ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

A BILL

For an Act entitled: "An Act establishing the Alaska Citizens Wealth Ownership Program, and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. AS AA is amended by adding a new chapter to read:

CHAPTER 1. ALASKA CITIZENS WEALTH OWNERSHIP PROGRAM

ARTICLE 1. GENERAL PROVISIONS

§AA.BB.100 FINDINGS. The Legislature hereby finds —

(1) that it is in the public interest and in the furtherance of a public purpose to distribute a portion of Alaska's energy wealth to the people of Alaska in the form of income-producing assets in order to increase their involvement and awareness regarding the management of the state's natural resources, in the development of its local industry, and in the capitalist system;

(2) that a mechanism by which the state distributes a portion of its resource royalties will best promote the state's interest in producing a more personal and direct stake in the impact of decisions involving the state's natural resource production and development; and

(3) that a mechanism by which the state distributes a portion of its ownership interests in business enterprises will best promote the state's interest in providing a more personal and direct stake in the impact of decisions involving state investments, development of local industry, as well as a more personal and direct stake in the capitalist system.

§AA.BB.110. PURPOSES. (a) The Alaska Citizens Wealth Ownership Program (hereinafter the Program) is hereby established in the Department of Revenue.

(b) The Program's purposes are:

(1) to transfer part of Alaska's petroleum wealth to its people in the form of income-producing assets;

(2) to provide a means for the direct participation of individual Alaskans in the financing of, and profits from, newly organized enterprises of general benefit to the state [such as the Alaska Natural Gas Transportation System (ANGIS)];

(3) to promote greater resident Alaskan control, and to reduce absentee ownership and control, of existing Alaska industries;

(4) to encourage wider citizen participation in and understanding of the capitalist system through a wider distribution of ownership in Alaska business enterprise;

(5) to encourage increased awareness and involvement by the people of Alaska in the management of natural resource production and development;

(6) to encourage increased awareness and involvement by the people of Alaska in the state's participation in business enterprise; and

(7) to encourage increased awareness and involvement by the people of Alaska in the development of local industry.

(c) Except as expressly required or authorized by this Act, or otherwise required by United States or Alaska laws, the assets distributed under the Program shall be the unencumbered private property of its beneficiaries, and the beneficiaries shall not be in any way impaired in their enjoyment of the earnings of those assets, the proceeds of their sale, or any other advantage of their use or disposition.

(d) The Program is not intended to create or result in the creation of any new governmental agency, corporation, or enterprise.

(e) Except as expressly provided in this Act, the Program is not intended to be part of, duplicate, enlarge or diminish, conflict with, substitute for, or alter in any way —

(1) any existing service or function of State government;

(2) any State business loan or industrial development program;

(3) any plan for the elimination, refund, or reduction of any State personal or business tax; or

(4) the investment of State revenues in, or the disposition of earnings from, the Permanent Fund.

§ AA.BB.115. ALASKA CITIZENS WEALTH DISTRIBUTION PLANS. (a) An Alaska Citizens Wealth Distribution Plan (hereinafter a Plan) is a plan under which the Commissioner of Revenue (hereinafter the Commissioner)

(1) contributes, transfers, commits, or dedicates to the Program securities, rights to resource revenues, or other assets, either already owned by the State or acquired expressly for the Program; and

(2) distributes those assets to individual Alaskans by grant and/or sale under the terms of this Act.

(b) Each Plan shall provide for the distribution of assets to individual Alaskans in the form of shares, certificates, debentures, warrants, options, or other securities or instruments that establish their ownership, right, or interest in one (and only one) of the following:

(1) An Alaska Energy Resource Trust, as provided in CHAPTER 2 of this Act.

(2) An Alaska Industrial Development Project, as provided in CHAPTER 3 of this Act.

(3) An Alaska General Stock Ownership Corporation, as provided in CHAPTER 4 of this Act.

(4) An Alaska Investment Fund, as provided in CHAPTER 5 of this Act.

(5) An Alaska Real Estate Trust, as provided in CHAPTER 6 of this Act.

(6) Shares in one or more existing private enterprises doing business in Alaska, as provided in CHAPTER 7 of this Act.

(c) Each Plan shall provide for a single distribution of such shares, certificates, debentures, warrants, options, or other securities or instruments, only to persons who were residents of Alaska as of an eligibility date to be specified in the Plan.

§ AA.BB.120. PLANS SUBMITTED TO LEGISLATURE. (a) The Commissioner shall, on or before the thirtieth legislative day of each Session of the Legislature beginning with the 1981 Session, submit to the Legislature for its consideration and approval, at least one Plan, and not more than three Plans.

(b) Each Plan submitted to the legislature under this section shall be in the form of a Bill or Joint Resolution that —,

(1) specifies the assets to be made available for distribution;

(2) authorizes their purchase or other acquisition by the State, if necessary, and their appropriation, transfer, commitment, or dedication to the Plan;

(3) specifies the eligibility date for persons receiving benefits under the Plan;

(4) specifies the manner in which eligible persons must apply for a grant of assets, or subscribe to purchase assets, distributed under the Plan, and the earliest and latest dates on which they may make such an application or subscription;

(5) specifies the type and number of shares, certificates, debentures, warrants, options, or other securities or instruments to be distributed, and the manner in which they are to be distributed;

(6) specifies the terms and manner of payment for any shares, certificates, debentures, warrants, options, or other securities or instruments to be sold under the Plan;

(7) directs and authorizes the disposition of any assets appropriated, transferred, committed, or dedicated to the Plan, and of any authorized or issued shares, certificates, debentures, warrants, options, or other securities or instruments, which are not actually distributed under the Plan;

(8) specifies the restrictions, if any, on the sale, assignment, hypothecation, or other transfers of or encumbrances upon the shares, certificates, debentures, warrants, options, or other securities or instruments distributed under the Plan, consistent with this Act; and

(9) authorizes the appropriation and expenditure of such funds as may be necessary to administer the Plan.

(c) Each Plan submitted to the Legislature under this section shall be accompanied by ---

(1) such draft legislation in the form of a Bill or Bills amending the general laws of Alaska, as may be necessary, to implement the Plan. [An example might be enactment of an Alaska regulated investment company (mutual fund) law, in order to establish an Alaska Investment Fund under CHAPTER 6 of this Act.]

(2) the proposed articles of incorporation and by-laws of any corporate entity, or the proposed indentures of any trust, whose creation is necessary to implement the Plan;

(3) the names of, or a statement of the manner of selecting, the incorporators and initial directors of any such corporate entity, or trustee(s) of any such trust; and

(d) CHAPTERS 8 and 9 of this Act shall be deemed to be Plans for the purposes of this section.

(4) a statement that contains —

(A) a description of the assets to be distributed under the Plan, and an appraisal of their value, with due attention to any uncertainty that may attach to the appraisal;

(B) a tabulation of the initial fiscal cost of the Plan to the State, and a projection of probable future fiscal costs, with due attention to any contingent fiscal costs, liabilities, or risks that may attach to the Plan;

(C) projections of the probable earnings and appreciation (or decline) in the value of those assets, and of their probable impact on income and wealth of the Plan's intended beneficiaries, with due attention to any uncertainty that may attach to those projections;

(D) a statement of any federal or state tax liability that might be incurred by beneficiaries of the Plan in connection with the initial distribution of shares, certificates, debentures, warrants, options, or other securities or instruments, earnings derived from them, or their ultimate sale or other disposal, with due attention to any uncertainty that may exist with respect to that tax liability [for example, regarding future IRS rulings];

(E) an assessment of any other costs, liabilities, or risks that may attach to the receipt or ownership of assets distributed under the Plan; and

(F) such other kinds of information as the United States and Alaska securities laws might require to be included in a registration statement or prospectus in an ordinary public offering or sale of the kinds of shares, certificates, debentures, warrants, options, or other securities or instruments to be distributed under the Plan.

(f) The Legislature may study, debate, amend, and enact or reject a Plan in the same manner as other Acts or joint resolutions, as provided by the Alaska Constitution and the rules of the Legislature.

ARTICLE 2. ELIGIBILITY FOR BENEFITS

§AA.BB.210. ELIGIBILITY FOR BENEFITS. (a) No person other than a natural person who is a resident of Alaska as defined in AS AA.BB.215 on the eligibility date established for any Plan may receive a free grant under that Plan of shares, certificates, debentures, warrants, options, or other securities or instruments as described in AS AA.BB.315, or purchase such assets under that Plan on the First or Second Restricted Sales as described in AS AA.BB.320-325.

(b) No person who has been granted, without consideration, any non-transferable warrant or option to purchase shares, certificates, debentures, or other assets distributed under this Program, and who has ceased to be a resident of Alaska, may exercise any such warrant or option or portion thereof remaining unexercised on the date on which said person ceased to be a citizen of [a resident of, domiciled in?] Alaska, and any said unexercised warrant or option or portion thereof shall become null and void as of that date.

(c) (1) No person who has purchased, for consideration, any non-transferable warrant or option to purchase shares, certificates, debentures, or other assets distributed under this Program, and who has ceased to be a resident of Alaska, may exercise any such warrant or option or portion thereof that remains unexercised on the date on which said person ceased to be a resident of Alaska, but (2) any such person may offer any such unexercised and otherwise valid warrant or option or portion thereof for repurchase by the State, and upon such an offer the Commissioner shall repurchase said asset at its issue price, plus interest accrued from the date of issue to the date on which the offeror ceased to be a resident Alaska.

(d) Any installment contract or other loan made or held by the State of Alaska or any agency thereof for the purchase of shares, certificates, debentures, warrants, options, or other securities or instruments distributed under this Program, or secured by such assets, shall become due and payable as of the date the beneficiary ceases to be a resident of Alaska.

(4) a statement that contains —

(A) a description of the assets to be distributed under the Plan, and an appraisal of their value, with due attention to any uncertainty that may attach to the appraisal;

(B) a tabulation of the initial fiscal cost of the Plan to the State, and a projection of probable future fiscal costs, with due attention to any contingent fiscal costs, liabilities, or risks that may attach to the Plan;

(C) projections of the probable earnings and appreciation (or decline) in the value of those assets, and of their probable impact on income and wealth of the Plan's intended beneficiaries, with due attention to any uncertainty that may attach to those projections;

(D) a statement of any federal or state tax liability that might be incurred by beneficiaries of the Plan in connection with the initial distribution of shares, certificates, debentures, warrants, options, or other securities or instruments, earnings derived from them, or their ultimate sale or other disposal, with due attention to any uncertainty that may exist with respect to that tax liability [for example, regarding future IRS rulings];

(E) an assessment of any other costs, liabilities, or risks that may attach to the receipt or ownership of assets distributed under the Plan; and

(F) such other kinds of information as the United States and Alaska securities laws might require to be included in a registration statement or prospectus in an ordinary public offering or sale of the kinds of shares, certificates, debentures, warrants, options, or other securities or instruments to be distributed under the Plan.

(f) The Legislature may study, debate, amend, and enact or reject a Plan in the same manner as other Acts or joint resolutions, as provided by the Alaska Constitution and the rules of the Legislature.

§AA.BB.215. ALASKA RESIDENCY DEFINED. (a) For the purposes of this Act, "resident" means a natural person who maintains a permanent place of abode in the state with the intention of making the state his or her permanent place of residence and who resides in the state continuously except for temporary purposes only and with the intent of returning.

(b) A person may not be considered to have gained a residence solely by reason of his or her presence and may not lose it solely by reason of his or her absence while in the civil or military service of this state or of the United States or by reason of his or her absence because of marriage to a person engaged in the civil or military service of this state or of the United States, or for attendance as a student or visiting scholar at an educational institution, or while in an institution at public expense, while confined in prison, while engaged in the navigation of the waters of the state, the United States, or the high seas, or while residing upon an Indian or military reservation within the state.

(c) A minor's residence shall be deemed to be the same as that of his or her parent or guardian; a married person may establish his or her own residence, and does not presumptively lose residency if his or her spouse is not a resident.

§AA.BB.220 EVIDENCE OF RESIDENCY. (a) A person shall be presumed to be a resident of Alaska on a specified date, as defined in AS AA.BB.215, if he or she offers at least two of the following:

(1) evidence that he or she was registered to vote in Alaska on that date, and actually voted in the last statewide general election prior to that date;

(2) a copy of the individual's Alaska resident personal income tax return for the tax year which includes that date, or for the previous tax year;

(3) an Alaska driver's license, or resident hunting, fishing, or trapping license, purchased prior to that date, and valid on that date;

(4) evidence that he or she had a telephone or electric utility connection listed in his or her name, or in the name of a spouse, or (in the case of a minor) in the name of a parent or guardian, at a private residence in Alaska on that date; and

(5) a notarized affidavit from two or more Alaska residents who can themselves present at least two of the items listed in paragraphs (1) through (4) of this subsection.

(b) A presumption of residency established under subsection (a) of this section may be rebutted, and a person shall be presumed not to be a resident on a given date if, within thirty days prior to or one year following that date, he or she —

(1) voted in an election, or stood for election or served in public office, in another state or nation; or

(2) declared himself or herself to be a resident of any other state or nation for any purpose, or took advantage of any right or privilege reserved to residents of another state or nation.

§AA.BB.225 LIST OF PERSONS CLAIMING RESIDENCE. At least sixty days prior to the distribution of any shares, certificates, debentures, warrants, options, or other securities or instruments under any Plan, the Commissioner shall make available for public inspection in at least five locations around the state, a list of the names, addresses, and type of residency evidence submitted, of all persons claiming to be residents for the purpose of receiving benefits under the Plan.

ARTICLE 3. DISTRIBUTION OF ASSETS

§AA.BB.310. BASIC PURCHASE PRICE. (a) The Commissioner shall establish a basic purchase price for any shares, certificates, or debentures to be distributed to individual Alaskans under each Plan, as follows:

(1) The basic purchase price for shares or debentures of an Alaska Industrial Development Project, an Alaska General Stock Ownership Corporation, an Alaska Investment Fund, an Alaska Real Estate Trust, or existing private enterprises, authorized to be distributed to individual Alaskans under any Plan, shall be equal to the average original cost to the State of Alaska of those shares or debentures, or of the other assets contributed, transferred, committed, or dedicated to the Program and represented by those shares or debentures, plus an amount that, in the judgement of the Commissioner, compensates the State for the administrative costs of acquiring, holding, and distributing those shares, debentures, or assets; and

(2) The basic purchase price for the certificates of an Alaska Energy Resource Trust, authorized to be distributed to individual Alaskans under any Plan shall be the conservatively appraised value of those certificates, as defined in subsection (b) of this section.

(b) A "conservatively appraised value" for certificates of an Alaska Energy Resources Trust is a value determined by generally accepted appraisal methods, with the following stipulations:

(1) estimates of resource or production volumes shall have a confidence level of seventy-five percent (75%) or greater — that is, the appraiser must believe that there is at least a seventy-five percent probability that the actual resource or production volume will equal or exceed the estimated value;

(2) the assumed rate of increase in future world prices for energy commodities (as represented, for example, by the price of Saudi Arabian "marker" crude oil) shall not exceed the general rate of price inflation in the United States; and

(3) the discount rate used to reduce future income and costs to present value shall reflect the judgment of private investors as to the expected pre-tax rate of return required to justify incremental investments in the exploration and development of resources comparable to those from which income has been committed to the Plan.

(c) The shares, certificates, or debentures distributed under any Plan must be divided, or must be subdividisible at the option of the holder, into units whose basic purchase price does not exceed fifty dollars (\$50) per unit.

§AA.BB.315 FREE DISTRIBUTION. Under each Plan, a fraction to be specified in the Plan, but not less than five percent (5%) and not more than fifteen percent (15%), of the total number of shares, certificates, debentures or other assets to be distributed under the Plan shall be granted in equal portions, without consideration, to eligible Alaskans who apply to receive said assets;

§AA.BB.320 FIRST RESTRICTED SALE. (a) All shares, certificates, debentures, or other assets authorized to be distributed to individual Alaskans under each Plan, other than those distributed as a grant without consideration under AS AA.BB.310, shall be offered for sale to eligible Alaskans in a first restricted sale.

(b) In the first restricted sale under each Plan, each eligible Alaskan shall have the right to subscribe for any number of units of the assets to be distributed, by depositing with his or her subscription application and evidence of eligibility, a deposit in the form of —

- (1) cash, check, or money order,
- (2) an assignment of any unpaid Alaska personal income tax credit or refund for the past, current, or next tax year, or
- (3) a combination of the above

— in a total amount equal to ten percent (10%) of the basic purchase price of the assets subscribed for.

(c) The applicant shall indicate on his or her subscription application whether he or she wishes to purchase the assets (1) for cash, or (2), on an extended purchase plan as provided in subsection (f) of this section.

(d) If the first restricted sale is oversubscribed (that is, if the total number of units of the assets subscribed for exceeds the number of units available for sale), each eligible applicant shall have the right to complete the purchase of the lesser of —

- (1) the number of units subscribed for, and
- (2) the number of units which, if established as the maximum number of units that any one eligible applicant may purchase, would result in the sale of all the units authorized for sale.

(e) The Commissioner shall notify each subscriber who elects to purchase for cash as provided in subsection (c) of this section of the total number of units of shares, certificates, debentures, or other assets he or she is entitled to purchase in the first restricted sale, and of the cash balance required, after crediting his or her deposit, to complete the purchase of those units:

(1) On receipt of cash, check, or money order equal to the balance owing, the Commissioner shall, subject to the limitation in AS AA.BB.340, convey to such subscriber the shares, certificates, debentures, or other assets so purchased; but

(2) If the subscriber fails to complete the purchase as provided in paragraph (1) of this subsection within sixty days, the Commissioner shall convey to such subscriber, subject to the limitation in AS AA.BB.340, the largest number of whole units whose basic purchase price does not exceed the amount of the subscriber's deposit, and refund any balance remaining from the subscriber's deposit.

(f) The Commissioner shall notify each subscriber who elects to purchase on an extended payment plan as provided in subsection (c) of this section of the total number of units of shares, certificates, debentures, or other assets he or she is entitled to purchase in the first restricted sale, and convey to such subscriber:

(1) The largest number of whole units that does not exceed one-tenth of the total number of units the subscriber is entitled to purchase;

(2) A refund of the difference, if any, between the subscriber's deposit and the basic purchase price for the number of units conveyed under paragraph (1) of this subsection; and

(3) Stock-purchase warrants described in AS AA.BB.335, for the balance of the total number of units the subscriber is entitled to purchase.

§AA.BB.325. SECOND RESTRICTED SALE. (a) If the first restricted sale of shares, certificates, debentures, or other assets under any Plan is undersubscribed (that is, if the total number of units available for sale exceeds the number of units subscribed for in the first restricted sale), and if the Plan authorizes a second restricted sale in such an event, the Commissioner shall conduct such a sale under this section.

(b) In the second restricted sale under any Plan, each eligible Alaskan may submit one or more sealed bid(s) each of which shall specify the number of units the bidder wishes to purchase at a bid price specified by the him or her (which price must be equal to or exceed a minimum bid price specified by the Commissioner, but which may otherwise be less than, equal to, or more than the basic purchase price).

(c) The sealed bids described in subsection (b) of this section must be accompanied by evidence of the bidder's eligibility, and a deposit in the form of —

- (1) cash, check, or money order,
- (2) an assignment of any unpaid Alaska personal income tax credit or refund for the past, current, or following tax year (not already encumbered in the first restricted sale), or
- (3) a combination of the above

— in a total amount equal to ten percent (10%) of the bid price for the number of units subscribed for.

(d) The Commissioner shall tally the bids in descending order of bid price, until (1) the total number of units bid for equals the number of units to be sold, or (2) all bids at or above the minimum bid price have been tallied, whichever occurs sooner; and the Commissioner shall award to each bidder whose bid has been included in this tally, sale of the number of units for which he or she bid, at an actual sales price equal to his or her bid price for those units [ALTERNATE PROVISION: to the bid price for lowest bid so tallied], until (1) all such bids have been satisfied, or (2) all units have been sold, whichever occurs sooner.

(e) If the number of units for which valid bids are received at a bid price equal to or greater than the actual sales price as described in subsection (d) of this section, exceeds the number of units available for sale, the Commissioner shall award sale of the number of units bid for to each such bidder whose bid price exceeded the actual sales price, and shall award sale of the remaining units to those bidders whose bid price was exactly equal to the actual sales price, in proportion to the number of units for which they bid at that price.

(f) All sales of shares, debentures, or other securities in any second unrestricted sale shall be cash sales; the Commissioner shall notify each successful bidder of the total number of units he or she is entitled to purchase in the second restricted sale, and of the cash balance required, after crediting his or her deposit, to complete the purchase of those units:

(1) On receipt of cash, check, or money order equal to the balance owing, the Commissioner shall, subject to the limitation in AS AA.BB.340, convey to such bidder the shares, debentures, or other assets so purchased; but

(2) If the bidder fails to complete the purchase as provided in paragraph (1) of this subsection within sixty days, the Commissioner shall convey to such bidder, subject to the limitation in AS AA.BB.340, the largest number of whole units for which the actual sales price does not exceed the amount of the subscriber's deposit, and refund any balance remaining from the subscriber's deposit.

§AA.BB.330. UNRESTRICTED SALE. Except as expressly provided in this Act or the terms of a Plan, or otherwise prohibited by law, the Commissioner is authorized to hold as investments or to sell for maximum revenue, or otherwise for the the benefit of the State, any shares, certificates, debentures, or other assets authorized to be distributed under a Plan, but which (1) remain undistributed after completion of the free distribution, the first restricted sale, and (where required) the second restricted sale, and (2) are not reserved for sale according the terms of a stock-purchase warrant.

§AA.BB.335. STOCK-PURCHASE WARRANTS. (a) Stock-purchase warrants distributed under AS AA.BB.320(f) shall grant an eligible holder the right to purchase, over a period of nine years from their date of issue, the number of shares, certificates, debentures, or other assets that equals nine-tenths (90.%) of the total number of units which the holder was entitled to purchase in a first restricted sale under this chapter, on the following schedule:

(1) The largest number of whole units that does not exceed one-ninth of the total number of units that the holder is entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), not later than one year after the issue date;

(2) The largest number of whole units that does not exceed one-eighth of the units that the holder is entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he was entitled to purchase under paragraph (1) of this subsection, not later than two years after the issue date;

(3) The largest number of whole units that does not exceed one-seventh of the units that the holder is entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he was entitled to purchase under paragraphs (1) and (2) of this subsection, not later than three years after the issue date;

(4) The largest number of whole units that does not exceed one-sixth of the units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (3) of this subsection, not later than six years after the issue date;

(5) The largest number of whole units that does not exceed one-fifth of the units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (4) of this subsection, not later than seven years after the issue date;

(6) The largest number of whole units that does not exceed one-fourth of the units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (5) of this subsection, not later than six years after the issue date;

(7) The largest number of whole units that does not exceed one-third of the units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (6) of this subsection, not later than seven years after the issue date;

(8) The largest number of whole units that does not exceed one-half of the units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (7) of this subsection, not later than eight years after the issue date;

(9) The largest number of whole units that does not exceed the number of units that the holder was entitled to purchase after receipt of the units distributed under AS AA.BB.320(f)(1), less the number of units he or she was entitled to purchase under paragraphs (1) through (8) of this subsection, not later than nine years after the issue date;

(b) The actual purchase price for any asset purchased by exercising a stock-purchase warrant under this section shall be —

(1) the basic purchase price of the asset, plus

(2) a carrying charge, calculated as interest on the basic purchase price, compounded from the stock-purchase warrant's date of issue to the date of actual purchase of the asset, at the weighted average cost of borrowing to the State of Alaska during the fiscal year previous to the date of issue, less

(3) any dividends, interest, royalties, or profits received by the State from holding the asset between the stock-purchase warrant's date of issue and the date of actual purchase. Provided, however, that the actual purchase price shall in no case be less than one-half the basic purchase price.

(c) Payment for shares, certificates, debentures, or other assets purchased by exercising a stock-purchase warrant under this chapter may be by —

(1) cash, check, or money order,

(2) an assignment of any unpaid Alaska personal income tax credit or refund, from the past, current, or following tax year, or

(3) a combination of the above.

(d) All stock-purchase warrants distributed under AS AA.BB. 320(f) shall be non-transferable, except by inheritance, and no purchase right granted by such a warrant shall be exercised except by a natural person who is a resident of Alaska at the time said purchase right is exercised.

§AA.BB.340. USE OF INCOME TAX CREDITS. (a) The Commissioner shall not convey to a purchaser any share, certificate, debenture, or other asset to be distributed under this Program, and purchased under AS AA.BB.320(b), 325(c), or 335(c) in whole or in part by means of an assignment of an Alaska personal income-tax credit or refund for any year, until the purchaser's individual income tax return for that year has been filed and processed by the Department of Revenue, and the Commissioner has determined that the purchaser in fact appears to be entitled to a personal income tax credit or refund sufficient to satisfy the balance owing for his or her purchase of the shares, certificates, debentures, or other assets, or until that balance has been otherwise paid as provided in subsection (b) of this section.

(b) If after the purchaser has filed, and the Department has processed, the purchaser's Alaska personal income tax return as provided in subsection (a) of this section, the Commissioner determines that the purchaser does not appear to be entitled to a personal income tax credit or refund sufficient to pay the balance owing for his or her purchase, the Commissioner shall notify the purchaser of the balance owing after crediting any refund or credit to which the purchaser may be entitled:

(1) On receipt of cash, check, or money order equal to the balance owing, the Commissioner shall convey to the purchaser all shares, certificates, debentures, or other assets so purchased; but

(2) If the bidder fails to complete the purchase as provided in paragraph (1) of this subsection within sixty days, the Commissioner shall convey to such purchaser the largest number of whole units for which the actual sales price does not exceed the sum of (a) any applicable cash payment and (b) any tax refund or credit which in the judgment of the Commissioner may properly be applied to the purchase, and the Commissioner shall refund, or credit to the purchaser's Alaska personal tax payments, any balance that remains owing to the purchaser.

§ AA.BB.115. ALASKA CITIZENS WEALTH DISTRIBUTION PLANS. (a) An Alaska Citizens Wealth Distribution Plan (hereinafter a Plan) is a plan under which the Commissioner of Revenue (hereinafter the Commissioner)

(1) contributes, transfers, commits, or dedicates to the Program securities, rights to resource revenues, or other assets, either already owned by the State or acquired expressly for the Program; and

(2) distributes those assets to individual Alaskans by grant and/or sale under the terms of this Act.

(b) Each Plan shall provide for the distribution of assets to individual Alaskans in the form of shares, certificates, debentures, warrants, options, or other securities or instruments that establish their ownership, right, or interest in one (and only one) of the following:

(1) An Alaska Energy Resource Trust, as provided in CHAPTER 2 of this Act.

(2) An Alaska Industrial Development Project, as provided in CHAPTER 3 of this Act.

(3) An Alaska General Stock Ownership Corporation, as provided in CHAPTER 4 of this Act.

(4) An Alaska Investment Fund, as provided in CHAPTER 5 of this Act.

(5) An Alaska Real Estate Trust, as provided in CHAPTER 6 of this Act.

(6) Shares in one or more existing private enterprises doing business in Alaska, as provided in CHAPTER 7 of this Act.

(c) Each Plan shall provide for a single distribution of such shares, certificates, debentures, warrants, options, or other securities or instruments, only to persons who were residents of Alaska as of an eligibility date to be specified in the Plan.

(c) In the event a disagreement exists between any purchaser and the Commissioner regarding the purchaser's entitlement to apply Alaska personal income tax refunds or credits to the purchase of shares, certificates, debentures, or or other assets under this section, the determination of the Commissioner shall, if not amended by him, become final sixty days after the notice provided for in subsection (b) of this section (or if amended by him, sixty days after his notice to the purchaser of such amendment). (That is, the purchaser's only recourse in case the Commissioner is in error, and does not correct the error within sixty days, is to pay off the balance owing on the purchase of assets under the Program, and to pursue whatever administrative or legal remedies may otherwise be available, in order to obtain a cash refund or tax credit; the purchaser's remedies do not include any right to compel the Commissioner to complete the sale of any shares, certificates, debentures, or other assets to which the disputed sum would have been applied.)

(d) The provisions of subsection (c) of this section shall not in any way alter any person's Alaska personal income tax liability, entitlement to any tax refund or credit, or any recourse or remedy he or she may have in respect to any disagreement with the State of Alaska regarding such liability or entitlement.

§AA.BB.350. DISPOSITION OF PROCEEDS. The Commissioner shall deposit all net proceeds from the sale of shares, certificates, debentures, or other assets under this Program into the Permanent Fund.

ARTICLE 4. OWNERSHIP RIGHTS

§AA.BB.410. TRANSFER OF ASSETS. Except as expressly provided (with respect to non-transferable stock-purchase warrants in AS AA.BB. 210(b) and (c), and 335(d); the certificates of an Alaska Energy Resource Trust in AS AA.BC.140); and shares in an Alaska General Stock Ownership Corporation in AS AA.BE.140, nothing in this Act shall restrict the right of a recipient or holder of any shares, certificates, debentures, or other assets distributed under the Program to sell, transfer, devise, bequeath, pledge, hypothecate, or otherwise dispose of any such asset, or interest in or earnings from that asset.

§AA.BB.415. VOTING RIGHTS. (a) The voting rights attached to ownership any security distributed under this Program shall be conveyed unrestricted to the individual Alaskans receiving that security, and the Commissioner shall not reserve, or require as a condition of distribution of any such security that the recipient waive any such right, grant any proxy, or adhere to any voting trust, unless the security were subject to such a stipulation or covenant at the time it was acquired by the State.

(b) Subsection (a) of this section shall not be interpreted to prohibit the Commissioner from exercising any voting rights attached to any security owned, held in trust, or reserved by the State for future distribution under the Program, or from issuing or distributing convertible debentures or non-voting securities under the terms of a Plan.

ARTICLE 5. TAX TREATMENT

§AA.BB.510. RECEIPT OF ASSETS NOT TAXABLE. The receipt by an eligible individual of shares, certificates, debentures, warrants, options, or other securities or instruments distributed by the State of Alaska under the Program, whether by grant or purchase, shall not be considered as taxable income or capital gains for purposes of the Alaska individual income tax.

§AA.BB.515. CREDIT FOR FEDERAL TAXES PAID. (a) If the receipt by any eligible individual of shares, certificates, debentures, warrants, options, or other securities or instruments distributed by the State of Alaska under the Program, whether by grant or purchase, should be treated as taxable income or capital gains under the United States federal income tax, and that individual is thereby required to pay an additional federal income tax, the amount of such additional tax shall be creditable against the individual's Alaska individual income tax for the tax year in which the additional federal income tax is paid.

(b) The Alaska personal income tax credit provided by subsection (a) of this section shall not be limited to the taxpayer's Alaska individual income tax liability absent the credit, but shall be creditable in the tax year in which it occurs even if its net effect is a "negative tax" to be paid to the individual by the State, for that tax year.

(c) Any Alaska personal income tax credit taken to offset an additional federal income tax payment that is subsequently refunded or credited to the taxpayer, shall be treated for purposes of the Alaska personal income tax as a negative tax credit in the tax year in which the refund or credit is taken.

§AA.BB.520. INCOME NOT TAX-EXEMPT. Nothing in this article shall be construed to exempt from state or federal taxes any dividends, interest, profits, or other income received from the shares, debentures or other assets distributed under the Program, or the proceeds from their sale.

ARTICLE 6. SECURITIES MARKETS

§AA.BB.610. INTENT. It is the intent of this Act that the shares, certificates, debentures, or other assets distributed to Alaskans under the Program have a market value that is readily ascertainable, and that the people of Alaska be able to buy or sell such assets readily and without unnecessary or unreasonable transactions costs. |

§AA.BB.620 AUTHORITY OF COMMISSIONER TO MAKE MARKET. (a) If the Commissioner finds that an efficient public market does not exist for any issue of shares, certificates, debentures, or other assets distributed under the Program, he is authorized to buy, sell, and trade in such securities for the purpose of establishing such a market, and to publish regularly the "bid" and "ask" prices for those securities.

(b) If the Commissioner makes a market in any asset as authorized in subsection (a) of this section, he shall maintain an average markup (or spread between bid and ask prices) just sufficient, in his judgment, to compensate the State for the administrative costs of his trading activity.

ARTICLE 6. MISCELLANEOUS PROVISIONS

TO BE DRAFTED:

§AA.BB.700. DEFINITIONS. Defines terms used in this Act.

§AA.BB.710 PENALTIES. Provides criminal penalties and forfeiture of distributed assets, whether granted or purchased, for fraudulently claiming residence and for making false statements for the purpose of receiving benefits under the program.

§AA.BB.720. SAVINGS CLAUSES. Include provisions that preserve the intent and body of the Program if specific provisions are found unconstitutional: e.g., if definition of residency, or standards for determining residency, are invalidated, allows Commissioner to proceed on strictest definition of residency allowed by courts; if free grants of securities are prohibited, allows sale of assets, etc.

CHAPTER 2 ALASKA ENERGY RESOURCE TRUSTS.

§AA.BC.110. ALASKA ENERGY RESOURCE TRUST DEFINED. An Alaska Energy Resource Trust is a trust established by the Commissioner under authority of an Act of the Legislature under AS AA.BB.120, as part of the Alaska Citizens Wealth Ownership Program; its assets are a right or interest in, or a right to receive income equal to a specified portion of, the lease rentals, royalties, net profit shares, and/or mineral sale revenues from the production of oil and gas, coal, oil shale, tar sands, or uranium, from specified areas, tracts, or leases of state onshore or submerged lands.

§AA.BC.120. DISTRIBUTION OF CERTIFICATES (a) The certificates of any Alaska Energy Resource Trust established under this Act shall be distributed to eligible Alaskans according to the provisions of AS AA.BB.315-325, and the basic purchase price for such certificates shall be determined as provided in AS AA.BB.310(a)(2) and 310(b).

(b) There shall be no unrestricted sale of the certificates of any Alaska Energy Resource Trust; and the Commissioner shall hold as an investment for the State any certificates that (1) remain undistributed after completion of the free distribution, the first restricted sale, and (where required) the second restricted sale, and (2) are not reserved for sale according the terms of a stock-purchase warrant, including those certificates that were previously so reserved, but for which the outstanding warrants have expired or been cancelled or invalidated.

§AA.BC.140. OWNERSHIP AND TRANSFERABILITY. (a) An individual who has received certificates of an Alaska Energy Resources Trust in a distribution under this Act shall not be required to return, sell, or otherwise relinquish those certificates as a result of ceasing to be a resident, but no certificates of such a Trust may be sold, given, assigned, transferred, or otherwise conveyed, except by inheritance, to any person who is not a resident of Alaska as defined in AS AA.BB.215; and the trustee may cancel any certificates sold, given, assigned, transferred, or otherwise conveyed, except by inheritance, to other than a resident, and provide compensation for such shares at no more than the basic purchase price.

(b) No person or affiliated group may obtain or hold, by grant or purchase, whether from the State or otherwise, or by any other means, title to or a beneficial interest in, more than one-twentieth (5%) of the total authorized, issued, or outstanding certificates (whichever is the least) of any Alaska Energy Resource Trust authorized, issued, or outstanding (whichever is the least), and the trustee of such a Trust may not distributed to any person or affiliated group, and such person or group may not receive, any dividends, royalties, profits, or other payments from the income of such a Trust in excess of those attributable to one-twentieth (5%) of the total shares.

CHAPTER 3 ALASKA INDUSTRIAL DEVELOPMENT PROJECTS

§AA.BC.110. ALASKA INDUSTRIAL DEVELOPMENT PROJECT DEFINED. An Alaska Industrial Development Project (hereinafer a Project) is a nominal ly private enterprise engaged or intending to engage in the business of natural resource extraction or processing, or manufacturing, transportation, or communications, wholly or partly in the state of Alaska, and to which the State of Alaska or an agency or subdivision of the State, contributes capital or assists in financing, thorough an investment of equity or debt capital in the form of money or rights in land or natural resources, or by loan guarantees, with a value exceeding \$100 million.

§AA.BC.120. INTENT. It is the intent of this Act that, whenever the State of Alaska participates in the financing of large-scale basic industrial enterprise in or of major importance to the state, whenever and to the extent feasible —

(1) the State's direct participation be temporary and limited to the promotional, organizational, design and construction phases (or, in the case of natural resource extractive enterprises, to the promotional, organizational, exploration, and development phases);

(2) any state ownership and management role in such enterprises be relinquished to private persons once those enterprises become established and viable; and

(3) ownership and management roles relinquished by the state in such enterprises be transferred to resident Alaskans through the Program established by this Act.

§AA.BC.130. ALASKA NATURAL GAS TRANSPORTATION SYSTEM. If the Commissioner, under his existing authority, should invest any funds of State of Alaska in equity or convertible debentures of the Alaska Natural Gas Transportation System (also known as the Alaska Highway Gas Pipeline; hereinafter ANGTS), or a portion thereof, or in a natural gas conditioning plant associated with ANGTS, or if the Governor or any official of the Executive Branch of the State should submit to the Legislature any proposal for State participation in the financing of ANGTS, or a portion thereof, or of a natural gas conditioning plant associated with ANGTS, by contribution of equity or purchase of convertible debentures, the Commissioner shall, within 30 legislative days, submit a Plan for eventual distribution of the State's ownership interest to individual Alaskans through the Program established by this Act.

CHAPTER 4 ALASKA GENERAL STOCK OWNERSHIP CORPORATIONS

ARTICLE 1. GENERAL PROVISIONS

SAA.BE.110. ALASKA GENERAL STOCK OWNERSHIP CORPORATION DEFINED. An Alaska General Stock Ownership Corporation (hereinafter an AGSOC) is a corporation formed in accordance with subchapter U, chapter 1 of the Internal Revenue Code of 1954, as amended (26 U.S.C. 1391-1397) and this chapter.

TO BE DRAFTED: An adaptation of HB 240 as reported by the House State Affairs Committee, to make it permissive rather than mandatory.

CHAPTER 5 ALASKA INVESTMENT FUNDS

§AA.BF.110. ALASKA INVESTMENT FUND DEFINED. An Alaska Investment Fund (hereinafter a Fund) is a regulated investment company (also known as a mutual fund) organized or caused to be organized by the Commissioner in accordance with subchapter M, chapter 1 of the Internal Revenue Code of 1954, as amended (26 U.S.C. 851-855) and this chapter. 1

TO BE DRAFTED: an Alaska Regulated Investment Company Act (adaptation of the Maryland statute) or direction to the Commissioner of Commerce to submit a draft of such an Act; authorization for an Alaska Investment Fund organized under the program to issue more than one class of shares, and for the Commissioner to invest General Fund or Permanent Fund balances in the preferred shares in order to leverage the income of the shares distributed to citizens under the Program.

CHAPTER 6. ALASKA REAL ESTATE TRUSTS

§AA.BG.110. ALASKA REAL ESTATE TRUST DEFINED. An Alaska Real Estate Trust (hereinafter a ARET) is a real estate investment trust (REIT) organized or caused to be organized by the Commissioner in accordance with subchapter M, chapter 1 of the Internal Revenue Code of 1954, as amended (26 U.S.C. 856-858) and this chapter.

TO BE DRAFTED: authorization for an Alaska Real Estate Trust organized under the Program to issue more than one class of shares, and for the Commissioner to invest General Fund or Permanent Fund balances in the preferred shares in order to leverage the income of the shares distributed to citizens under the Program.

CHAPTER 7. EXISTING PRIVATE ENTERPRISES

§AA.BH.110. EXISTING PRIVATE ENTERPRISE DEFINED. For the purposes of this Act, an existingprivate enterprise is an existing private corporation engages in or intending to engage in natural resource extraction or processing; manufacturing, transportation, communications, trade, or services in Alaska, whose securities the Commissioner has purchased under his existing authority, or proposes to purchase under the terms of a Plan, for distribution through this Program.

CHAPTER 8. PRUDHOE BAY OIL AND GAS ROYALTY TRUST PLAN OF 1980

§AA.YY.110 CREATION OF TRUST. The Commissioner shall create by trust indenture an Alaska Energy Resource Trust in accordance with the provisions of this Chapter and other provisions of this Act, to be known as the Prudhoe Bay Oil and Gas Royalty Trust of 1980, and its trustee may transact affairs in that name.

§AA.YY.120. TRUST INDENTURE. (a) The Commissioner shall prepare a trust indenture and execute it on behalf of the State. The trustee shall also execute the trust indenture as trustee for the trust, and register the trust in accordance with AS 13.36.

(b) The trust indenture shall include:

- (1) the name and purpose of the trust;
- (2) powers and duties of the trustee;
- (3) the nature and rights of the beneficial shares and certificates;
- (4) accounting and distribution methods and procedures;
- (5) liability of trustee and method of succession;
- (6) meetings and rights of certificate holders;
- (7) duration, revocation, and termination of the trust;
- (8) limitations on the powers and rights of the trustee and the certificate holders; and
- (9) such other matters as the Commissioner considers necessary, not inconsistent with this Chapter.

§AA.YY.130. AMENDMENTS TO TRUST INDENTURE. (a) Amendments may be made to the trust indenture by a vote of the certificate holders present and represented at a meeting held in accordance with Article 6 of this Chapter, except that no amendment shall be effective without the express written approval of the trustee.

(b) An amendment may not be made to the trust indenture that would increase the power of the trustee to engage in business or investment activities or alter the rights of the certificate holders in relation to one another.

§AA.YY.140. PURPOSE. The purpose of the trust is to provide an efficient and practical means of permitting each certificate holder to receive his or her pro rata share of the proceeds attributable to the royalties conveyed to the trust. This purpose is realized by retaining and collecting the cash proceeds of royalties until production has ceased or the royalties have otherwise terminated; and to distribute that cash, net of expenses and liabilities of the trust, to the holders pro rata.

§AA.YY.150. THE TRUST ESTATE. The assets of the trust shall consist of the royalties conveyed to the trust under section 050 of this Chapter.

§AA.YY.155. CONVEYANCE OF ROYALTIES. (a) The Commissioner shall convey by deed to the trust, all royalties exceeding the average daily royalties accrued during the first three calendar months of 1980, from the State's reserved royalty interest in the following leases:

[INSERT PROPERTY DESCRIPTION]

(b) The deed shall indicate that the conveyance is only of a specified portion of the State's royalty interest and not the entire mineral interest, which shall be retained by the State. The conveyance of the royalty interest shall be for so long as there is production in paying quantities from the leases or properties specified in subsection (a) of this section. Five years after production in paying quantities has ceased, the royalty interest shall revert to the State.

(c) The conveyance to the trust shall be subject to the prior obligations of the State to make payments from the royalty interest to the Alaska Permanent Fund under Article IX, Section 11 of the Alaska Constitution, the Alaska Renewable Resources Development Fund under _____, and the Alaska Native Fund under _____. The conveyance shall also be subject to the rights and obligations of the lessor and lessee of the leases in properties described in subsection (a) of this section, including ---

(1) the authority of the Commissioner of Natural Resources to reduce royalties as authorized by AS 38.05.180(j);

(2) the authority of the Commissioner of Natural Resources to enter into storage or exchange agreements concerning royalties under AS 38.05.180(1);

(3) the authority of the Commissioner of Natural Resources to elect to take royalty in kind or in value under AS 38.05.182; and

(4) any future sales, exchanges, or other disposal or encumbrance that the Commissioner of Natural Resources is presently authorized by law or may be authorized by law in the future to make or place upon the royalty interest.

(d) For the purposes of this section, the net proceeds to the State from any sale of royalty oil and gas taken in kind from the leases specified in subsection (a) of this section, or of oil and gas or other property exchanged for royalties from those leases, or from any other disposal under clauses (2) through (4) of subsection (c) of this section, shall be regarded as royalty subject to conveyance.

(e) The conveyance shall not constitute a sale, exchange or disposal of a mineral for purposes of AS 38.05.183 or AS 38.06, and none of the requirements of these sections need be satisfied as a condition of the conveyance.

§AA.YY.160. RULE AGAINST PERPETUITIES. The conveyance of royalties to the trust, or the transfer of beneficial interests in the trust, or the duration of the trust itself shall not be considered as violating the so-called rule against perpetuities, or any law restricting or limiting the duration of trusts; and the trust to be created under this Chapter may continue for such time as may be necessary to accomplish the purposes for which it was created.

ARTICLE 2. TRUSTEE

§AA.YY.210. SELECTION OF TRUSTEE AND SUCCESSOR TRUSTEES. (a) The Commissioner shall select as a trustee for the Trust a bank or trust company licensed under AS 09, which has its principal offices in the state; has capital, surplus, and undivided profits of at least \$____; and accepts the powers and duties of the trustee under this Chapter.

(b) In the event of a vacancy in the office of trustee or if a trustee has given notice of its intention to resign, the certificate holders present or represented at a meeting in accordance with Article 6 of this Chapter may appoint a successor trustee.

(c) If a vacancy in the position of trustee continues for 60 days, a successor may be appointed by the court, in accordance with its powers under AS 13.36.035, upon the application of any certificate holder. The court may appoint a temporary trustee at any time after the application is filed with it and, pending the final appointment of a trustee, the temporary trustee shall have the powers and duties as the court appointing the temporary trustee shall provide in its order of appointment, consistent with the provisions of this Chapter and the trust indenture registered in accordance with it.

(d) Immediately upon the appointment of any successor trustee, all rights, titles, duties, powers and authority of the succeeding trustee shall be vested in and undertaken by the successor trustee and shall be entitled to receive from the trustee which it succeeds all of the Trust Estate held by it and all records and files in connection with it.

SAA.YY.220. POWERS AND DUTIES OF TRUSTEE. The trustee shall have the duties of preserving the Trust Estate, the collection of the income from the Trust Estate, the payment of expenses, and the distributions of the net proceeds of the Trust Estate to the certificate holders. The powers of the trustee shall not extend beyond those necessary and incidental to carrying out of these duties and shall be restricted to:

(1) the power to manage, conserve and protect the royalties that it would have if it were the absolute owner of the royalties, including the power to agree to any modification of the royalties, or to settle any dispute with respect to the royalties;

(2) the power to sell any part of the royalties for cash as it considers in the best interests of the certificate holders, but only after approval by all certificate holders under Article 6 of this Chapter;

(3) the power to accumulate cash temporarily as a reserve for liabilities or for distribution at the next distribution date and to invest those reserves in accordance with section ____ of this Chapter;

(4) the power to prosecute or defend, and to settle by arbitration or otherwise any claim of or against the trust, to waive or release rights of any kind and to pay or satisfy any debt, tax or claim upon evidence considered sufficient;

(5) the power to employ oil and gas consultants, accountants, attorneys and other professional and expert persons and to employ or contract for clerical and other administrative assistance and to make payments of all fees for services or expenses in any manner thus incurred out of the Trust; and

(6) the power to use all money received by it in the payment of all liabilities and obligations incurred by it in connection with the trust including all expenses, taxes, liabilities incurred of all kinds, compensation to it for its services hereunder, and compensation to parties employed by it.

§AA.YY.230. NO POWER TO ENGAGE IN BUSINESS OR MAKE INVESTMENTS. The trustee shall not, in its capacity as trustee under the trust acquire any oil and gas lease, mineral interest, or royalty other than the royalties conveyed under Section 155 of this Chapter or, except as provided in _____, acquire any other asset or engage in any business or investment activity of any kind. --

§AA.YY.240. LIABILITY OF TRUSTEE. The trustee's standard of care and liability shall be determined in accordance with the provisions of AS 13.36.

§AA.YY.250. COMPENSATION OF TRUSTEE. The trustee's compensation for its services shall be determined initially by the commissioner. The compensation of the trustee may be changed by a vote of the certificate holders in accordance with _____.

§AA.YY.260. INVESTMENT OF CASH RESERVES. (a) The trustee shall invest temporary cash reserves established under _____ of this Chapter in:

(1) obligations of or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations or corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by the United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law.

§AA.YY.270. PAYMENT OF LIABILITIES. (a) The trustee may use all money received by it in the payment of all liabilities of the trust,

including but not limited to, all expenses, taxes, liabilities incurred of all kinds, compensation to it for its services, compensation to persons employed by it. If any liability is contingent or uncertain in amount or is not currently due and payable, the trustee may establish a temporary cash reserve for its payment. The trustee shall not pay any liability of the trust with funds set aside under _____ for the payment of a monthly distribution amount unless there are no other available funds in the Trust Estate and the trustee is satisfied that on the distribution date there will be sufficient funds to pay the monthly distribution amount. If the funds set aside under _____ are used, the amount used shall be treated as a liability of the trust and shall bear interest at the rate of funds invested under _____.

(b) If at any time the cash on hand and to be received by the trustee is not, or will not, in the judgment of the trustee, be sufficient to pay liability of the trust as they become due, the trustee is authorized to borrow the funds required to pay those liabilities. If the trustee borrows funds under this subsection, no further distributions will be made to the certificate holders except previously determined monthly distribution amounts, until the indebtedness created by the borrowings has been paid in full. To secure payment of the indebtedness, the trustee is authorized to mortgage, pledge, grant security interest in or otherwise encumber and to include any and all items, remedies, covenants, and provisions considered necessary including without limitation the power of sale with or without judicial proceedings the Trust Estate, or any portion of the Trust Estate including all or any part of the royalties, and to carve out and convey production payments.

§AA.YY.280. RESIGNATION AND TERMINATION OF TRUSTEE. (a) The trustee may resign, with or without cause, at any time by written notice to each of the then certificate holders, given by registered mail addressed to those certificate holders at his or her last known post office address as shown by the records of the trustee at the time

the notice is given. The notice shall specify a date when the resignation shall take effect, but shall not be a date less than 60 days after the notice is mailed.

(b) The trustee may be removed by the affirmative vote of the certificate holders present or represented at a meeting held in accordance with the requirements of _____.

ARTICLE 3. TERMINATION OF TRUST AND LIQUIDATION

§AA.YY.310. DURATION, REVOCATION, AND TERMINATION OF TRUST. (a) The trust shall be irrevocable. The trust shall be terminable only as provided in this Section and shall continue until so terminated.

(b) The Trust shall terminate upon the first to occur of the following events or times:

(1) At the time as its net revenues for each of two successive years are less than \$_____.

(2) A cessation for five years of production from the properties for which the royalties are due.

(3) A vote in favor of termination by the certificate holders present or represented at a meeting held in accordance with _____

§AA.YY.320. LIQUIDATION. Upon termination of the Trust, the trustee shall proceed to liquidate and wind up the affairs of the trust. For the purpose of liquidating and winding up the affairs of the Trust at its termination, the trustee shall continue to act and exercise each power until its duties have been fully performed and the Trust Estate has been finally distributed. Upon the termination of the Trust, the trustee shall sell for cash in one or more sales all the properties other than cash then constituting the Trust Estate. The trustee shall, as promptly as possible, distribute the proceeds of any such sales and any other cash in the Trust Estate according to the respective interests and rights of the certificate holders, after paying, satisfying and discharging all of the liabilities of the Trust; or, when necessary,

setting up reserves in amounts as trustee in its discretion considers appropriate for contingent liabilities. If any property which the trustee is required to sell is not sold by the trustee within _____ years after the termination of the Trust, the trustee shall sell the property at public auction to the highest cash bidder. Notice of the sale by auction shall be mailed at least thirty days prior to the sale to each certificate holder at his or her address as it appears upon the books of the trustee. The trustee shall not be required to obtain approval of the certificate holders prior to selling property pursuant to this section. Upon making final distribution to the certificate holders, the trustee shall be under no further liability except as provided in _____.

ARTICLE 4. BENEFICIAL INTERESTS

§AA.YY.410. CREATION OF BENEFICIAL SHARES AND CERTIFICATES. (a) The entire beneficial interest in the Trust shall be divided into _____ units. The ownership of the units shall be evidenced by certificates in substantially the following form.

CERTIFICATE OF BENEFICIAL INTEREST

IN

THE PRUDHOE BAY OIL AND GAS ROYALTY TRUST OF 1980

Created by, Issued under, and subject to the Prudhoe Bay Oil and Gas Royalty Trust Indenture dated as of _____

THIS CERTIFIES THAT _____ is the owner of _____ Units of Beneficial Interest ("Units") in that certain Trust known and designated as the Prushoe Bay Oil and Gas Royalty Trust of 1980, created and established under the terms of the above-referenced Indenture by and between the State of Alaska, as Trustor, and _____, as Trustee, a duplicate original of which Indenture is, for the information of all concerned, held by said Trustee at its office. Said Indenture is hereby

referred to and made a part of this Certificate for all purposes, and the owner of this Certificate by accepting the same consents to, and becomes, bound by, all the terms and provisions of said Indenture and the provision herein. The Units represented by this Certificate are transferable on the books of the Trustee by the holder hereof in person, or by duly authorized attorney, upon surrender of this Certificate, properly endorsed, to the Trustee.

WITNESS the seal of the Trustee and the signature of its duly authorized officer.

DATED _____

_____, Trustee

By _____
Authorized Officer

By _____
Authorized Officer

(b) Initially, the state shall own all of the units. However, the state intends to distribute the units as of a date selected by the commissioner in accordance with _____. Upon that distribution, the trustee shall forthwith issue Certificates to those persons evidencing the number of units distributed to him or her.

§AA.44.420. RIGHTS OF CERTIFICATE HOLDERS. (a) The certificate holders shall own pro rata the beneficial interest in the Trust, and shall be entitled to participate pro rata in the rights and benefits of the certificates holders under this Chapter. A certificate holder, by assignment or otherwise takes and holds the same subject to all the terms and provisions of this Chapter, which shall be binding upon and inure to the benefit of the successors, assigns, legatees, heirs and personal representatives of the certificate holders. By an assignment or transfer of one or more units represented by a certificate, the

assignor shall part with, all of his or her beneficial interest attributable to it, all his rights in, to and under such certificate and all interests rights and benefits under this Trust of a certificate holder which are attributable to such unit or units as against all other certificate holders and the trustee.

(b) The certificates, units, and the rights, benefits and interest evidenced by either or both (including without limiting the foregoing, the entire beneficial interest) are and shall be held and construed to be in all respects intangible personal property, and the certificates and units evidenced by them shall be bequeathed, assigned, disposed of and distributed as intangible personal property.

(c) A certificate holder shall not have any legal or equitable interest in or to any real property interest which is a part of the Trust Estate, including, without limitation the royalties or any part of it, but the sole interest of each certificate holder shall be his or her beneficial interest and the obligation of the trustee to hold, manage and dispose of the Trust Estate and to account for the Trust Estate as provided in this chapter. A certificate holder shall not have the right to call for or demand or secure any partition during the continuance of the trust or during the period of liquidation and winding-up under ____

§AA.YY.430. EXECUTION OF CERTIFICATES. All certificates shall be signed by the trustee or a duly authorized officer of the trustee. Certificates may be signed and sealed on behalf of the trustee by such persons as at the actual date of the signing and sealing of such certificates shall be the proper officer of the trustee, although at the nominal date of such certificates any such person shall not have been such officer of the trustee. Any such signature may be the manual or facsimile signature of such officer and may be affixed, imprinted or otherwise reproduced on the certificate.

§AA.YY.440. REGISTRATION AND TRANSFER OF UNITS. The units may be transferred by the certificate holders in accordance with _____. The

units shall be transferable as against the trustee only on the records of the trustee upon the surrender of certificates and compliance with such reasonable regulations as it may prescribe. No service charge shall be made to the transferor or transferee for any transfer of a unit but the trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation to the transfer. Until any transfer, the trustee may treat the owner of any certificate as shown by its records as the owner of the units evidenced by them and shall not be charged with notice of any claim or demand respecting such certificate or the interest represented by any other party. A transfer of a unit shall, as to the trustee, transfer to the transferee as of the close of business on the date of transfer all of the right, title and interest of the transferor in and to the beneficial interest. The death of any certificate holder shall not entitle the transferee to an account or valuation for any purpose, but such transferee shall succeed to all rights of the deceased certificate holder under this Chapter upon proper proof of title, satisfactory to the trustee.

SAA.YY.450. DETERMINATION OF OWNERSHIP OF CERTIFICATES. In the event of any disagreement between persons claiming to be transferee of any certificate holder, the trustee shall be entitled at its option to refuse to recognize any such claim so long as such disagreement shall continue. In so refusing, the trustee may elect to make no delivery or other disposition of the interest represented by the certificate involved, or any part of it, or of any sum or sums of money accrued or accruing under it, and, in so doing, the trustee shall not be or become liable to any person for the failure or refusal of the trustee to comply with such conflicting claim and the trustee shall be entitled to continue so to refrain and refuse to so act, until:

(1) the rights of the adverse claimants have been adjudicated by a final judgment of a court assuming and having jurisdiction of the parties and the interest and money involved; or

(2) all differences have been adjusted by valid agreement between said parties and the trustee shall have been notified in writing signed by all of the interested parties.

ARTICLE 5. ACCOUNTING AND DISTRIBUTION

§AA.YY.510. FISCAL YEAR AND ACCOUNTING METHOD. The trustee may adopt any fiscal year and may change its fiscal year from time to time as it elects, and shall maintain its books in accordance with generally accepted accounting principles.

§AA.YY.520. DISTRIBUTIONS. (a) The trustee shall determine the monthly distribution amount for each month and on the monthly record date for such month shall establish a cash reserve equal to such amount. During the months of January, April, July and October of each year, the trustee shall for each of the immediate preceeding three months, distribute pro rata the monthly distribution amount for each such month, together with interest earned on each such amount from the monthly record date for such month to the payment date, to the certificate holder on the monthly record date for each such month.

(b) The monthly distribution amount shall be the amount determined by the trustee equal to the excess, if any, of:

(1) the cash received during a calendar month which is attributable to the royalties plus any decrease in any cash reserve established by the trustee for the payment of any liabilities of the trust plus any other cash receipts of the trust during the month other than interest earned on the monthly distribution amount for any other month; or

(2) the liabilities of the trust paid during that month plus the amount of any cash reserve established or increased by the trustee for the payment of any future or contingent liabilities of the trust.

(c) The monthly record date for each shall be the close of business on the last business day of the month.

§AA.YY.530 TAX REPORTING. For tax purposes, the trustee shall file such returns and statements as in its judgment are required to comply with applicable provisions of law and to permit each certificate holder to report correctly his or her share of the income and deductions of the Trust.

§AA.YY.540. REPORTS TO CERTIFICATE HOLDERS. At the end of each calendar quarter, the trustee shall mail to each person who was a certificate holder of record on a monthly record date during that quarter a report which shall show, in reasonable detail, the assets, liabilities, receipts and disbursements of the Trust for the quarter and for each month in the quarter. Within 90 days following the end of each fiscal year, the trustee shall mail to each person who was a certificate holder of record for a date to be selected by the trustee, an annual report containing financial statements audited by a nationally recognized firm of independent public accountants selected by the trustee.

ARTICLE 6. MEETINGS

§AA.YY.610. MEETINGS OF CERTIFICATE HOLDERS. (a) A meeting of the certificate holders may be called at any time and from time to time pursuant to the provisions of this section to transact any matter that the certificate holders may be authorized to transact.

(b) A meeting of the certificate holders may be called by the trustee or by certificate holders owning not less than _____ percent of the units represented by the then outstanding certificates. All meetings shall be held at a time and at a place in Alaska as the notice may designate.

(c) The notice of every meeting of the certificate holders shall be in writing, be signed by the trustee or the certificate holders

calling the meeting, set forth the time and place of the meeting and, in general terms, the matters proposed to be acted upon at the meeting. The notice shall be given in person or by mail not more than 60 days or less than 30 days before the meeting is to be held to all of the certificate holders of record not more than 60 days before the date of such meeting.

(d) If the notice is given to any certificate holder by mail, it shall be directed to him or her at the last address shown on the records of the trustee and shall be considered duly given when so addressed and deposited in the United States mail, postage prepaid. No matter other than that stated in the notice shall be acted upon at any meeting.

§AA.YY.620. VOTING. At a meeting of the certificate holders, the presence in person or by proxy of certificate holders holding a majority of the units outstanding as of the record date for determining the right to receive notice of the meeting, shall constitute a quorum. Any matter shall be considered to have been approved by the certificate holders if it is approved by the vote of a majority in interest of such certificate holders constituting a quorum, although less than a majority of all of the units at the time outstanding. A certificate holder shall be entitled to one vote for each unit owned by him or her and certificate holder may vote in person or by a duly executed written proxy.

§AA.YY.630. CONDUCT OF MEETINGS. The trustee may make reasonable regulations as it may deem advisable for any meeting of the certificate holders, for the appointment of proxies, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates or other evidence of the right to vote, the preparation and use at the meeting of a list authenticated by or on behalf of the trustee of the certificate holders entitled to vote at the meeting and other matters concerning the conduct of the meeting as it shall consider advisable.

ARTICLE 7. GENERAL PROVISIONS

§AA.YY.710. INSPECTION OF TRUSTEE'S BOOKS. A certificate holder and his or her authorized agents, attorneys, and auditors shall have the right during reasonable business hours to examine, inspect and make audits of the Trust and the records of the trustee in reference to the Trust.

§AA.YY.720. DEFINITIONS. In this chapter, ...

- (1) "beneficial interest" means an equitable interest in the cash of the Trust Estate including without limitation the proceeds from the conversion of the royalties to cash, and in the right to cash from such conversion of royalties, but does not include any legal or equitable title in or to the royalties as any part of the royalties;
- (2) "certificate" means a certificate issued by the trustee evidencing the ownership of one or more units;
- (3) "certificate holder" means the owner of a certificate as reflected on the books of the trustee;
- (4) "commissioner" means the Commissioner of Revenue;
- (5) "conveyance" means the transfer of royalties to the trust by the State;
- (6) "trust" means the trust created by and administered under the terms of this Chapter and the trust indenture;
- (7) "trustee" means the entity serving as trustee of the trust and includes any successor trustee;
- (8) "Trust Estate" means the assets held by trustee under the trust and shall include both income and principal;
- (9) "trust indenture" means the trust indenture originally executed by the Commissioner of Revenue and the trustee under this Chapter, or if amended or supplemented, as so amended or supplemented;
- (10) "royalties" means the royalties conveyed to the trustee pursuant to the conveyance;
- (11) "unit" means an undivided fractional interest in the beneficial interest.

CHAPTER 9. BEAUFORT SEA OIL AND GAS ROYALTY TRUST PLAN OF 1980

§AA.ZZ.110 CREATION OF TRUST. The Commissioner shall create by trust indenture an Alaska Energy Resource Trust in accordance with the provisions of this Chapter and other provisions of this Act, to be known as the Beaufort Sea Oil and Gas Royalty Trust of 1980, and its trustee may transact affairs in that name.

§AA.ZZ.120-150. [SAME AS CORRESPONDING SECTIONS OF CHAPTER 8]

§AA.ZZ.155. CONVEYANCE OF ROYALTIES. (a) The Commissioner shall convey by deed to the trust, 30 percent of the first "\$X" million, 50 percent of any amount exceeding "\$X" million but less than "\$Y" million, and 70 percent of any amount exceeding "\$Y" million in any calendar month, from the State's reserved royalty interest in the following leases:

[INSERT PROPERTY DESCRIPTION]

[INTERVENING LANGUAGE SAME AS CORRESPONDING SECTIONS OF CHAPTER 8]

§AA.ZZ.410. CREATION OF BENEFICIAL SHARES AND CERTIFICATES. (a) The entire beneficial interest in the Trust shall be divided into _____ units. The ownership of the units shall be evidenced by certificates in substantially the following form.

CERTIFICATE OF BENEFICIAL INTEREST
IN
THE BEAUFORT SEA OIL AND GAS ROYALTY TRUST OF 1980

Created by, Issued under, and subject to the Beaufort Sea Oil and Gas Royalty Trust Indenture dated as of _____

THIS CERTIFIES THAT _____ is the owner of _____ Units of Beneficial Interest ("Units") in that certain Trust known and designated as the Beaufort Sea Oil and Gas Royalty Trust of 1980 . . .

[REMAINING LANGUAGE SAME AS CORRESPONDING SECTIONS OF CHAPTER 8]

DRAFT LEGISLATION FOR A
PORTFOLIO OF ALASKA CITIZEN ENTERPRISES
(PACE)

Prepared for the
OFFICE OF THE GOVERNOR
STATE OF ALASKA

By
ARLON R TUSSING & ASSOCIATES, INC.
and
PRESTON, THORGRIMSON, ELLIS & HOLMAN

10 April, 1980

*check Dole
amendment
on small royalty owners*

loan
portfolio

PORTFOLIO OF ALASKA CITIZEN ENTERPRISES

INTRODUCTION AND EXPLANATION OF FINAL DRAFT

This draft is a synthesis of the plan for an Alaska Citizens Wealth Ownership Program that Arlon R. Tussing submitted to the office of the Governor on March 27, 1980, and the April 10, 1980 redraft of that plan in bill form by Preston, Thorgrimson, Ellis and Holman. The redraft made some unintended substantive changes in the plan: the current version corrects these changes and is intended as a further improvement in the legislative language.

Both the March 27 and April 10 drafts included (1) legislation establishing the general procedures for distributing any of several kinds of assets to Alaska residents, plus (2) plans in bill form for a "Prudhoe Bay Oil and Gas Royalty Trust", and a "Beaufort Sea Oil and Gas Royalty Trust." These plans provided for the one kind of asset distribution that could conceivably be put into effect in 1980 and which would put securities of unquestionable value into the hands of Alaskans (as opposed to some of the more speculative alternatives, such as AGSOC or a share in the gas conditioning plant).

Article 1 sets out the purposes of the portfolio --- these are self-explanatory. It houses the portfolio in the Department of Revenue, and requires the Commissioner to submit at least one and as many as three wealth distribution plans to the legislature each year. Each plan must be accompanied by a financial and legal analysis, and will not go into effect unless enacted as a law.

Article 2 limits benefits of the portfolio to Alaska residents as of an eligibility date specified for that plan. The legislation also sets out the evidence a

person must submit to establish a presumption of residency, and certain actions that establish a presumption of non-residency.

Article 3 spells out the general procedures for distributing securities to eligible residents. A small part (5 to 15 percent) of the securities distributed under each plan will be distributed free, in equal portions to each resident who applies for them. This provision assures that everybody gets something, and serves as advertisement for the program. Most of the assets distributed (85 to 95 percent), however, are to be sold to residents at their nominal value. There are at least three major reasons for selling, rather than giving away, the bulk of the assets:

(a) Sale at value is far more likely to survive constitutional challenge than free distribution. [The legislation will be written so that the sales procedures will survive even if the courts disallow free grants.]

(b) Sale at value is unlikely to create any federal tax liability for the recipient, while the IRS may rule that assets received free of charge are taxable income in the year they are received.

(c) People are likely to place a higher value on things they have to pay for than on free gifts.

There are at least three reasons Alaskans would want to buy assets distributed under the program:

(a) We assumed that some kind of tax credit or refund scheme will be adopted by the 1980 Legislature; Alaska taxpayers will be allowed to apply any tax credit or refund to the purchase of securities under the portfolio. Thus, although they will have to make a real choice (between investments and cash), many and probably most Alaskans will be able to avoid any cash outlay

(b) Most assets distributed under the portfolio will be sold at a "cost" or "conservatively appraised

intended to satisfy constitutional and federal tax requirements, but they can be expected to earn exceptionally high rates of return in relation to that "cost".

(c) Residents will be able to buy the securities on time, over a ten year period at a carrying cost far less than their expected rate of return.

Alaskans who want to buy securities on time will be issued non-transferable warrants --- certificates that allow them to buy a specified number of units each year at a fixed price. While Alaskans who move away will be able to keep the securities they have actually bought, and (with certain important exceptions) to sell them freely, their unused warrants will become invalid.

Article 4 contains a number of general provisions related to the program. Section 160 sets out the rights of securities holders. Except for the non-transferable warrants described above, shares in a natural resource trust (which can be transferred or sold only to other resident Alaskans, except by inheritance), and AGSOC shares (whose ownership is restricted by federal law), the assets distributed under the program will be the unrestricted property of the recipients, and can be disposed of as they wish.

Section 180 states that receipt of securities under the program, whether by grant or by purchase, is not taxable income under Alaska law, but that income from those securities, and proceeds from their resale, will be treated like any other income or capital gains. It also provides that if the IRS rules receipt of these securities to be taxable income under federal law, any additional federal tax the recipient is required to pay may be credited against Alaska income taxes.

Section 200 provides for the Commissioner of Revenue to buy and sell securities distributed under the program in order to create an orderly market for them, if an effective

private market for those securities did not otherwise develop.

Section 230 provides penalties for persons who falsely claim residency or make false statements in order to obtain benefits under the program.

Section 240 defines various terms used in the legislation, including residency.

The kinds of assets that may be distributed under the Program include the following. For distribution of each type of asset, the Commissioner of Revenue would have to present a specific plan to be acted on by the legislature.

Alaska Energy Resource Trusts are royalty trusts --- devices for passing on a portion of the state's oil and gas royalties directly to holders of certificates in the trust. (See the attached clipping from Fortune magazine. [pp ix-x])

Alaska Industrial Development Projects are major new investments, like the gas pipeline or conditioning plant, in which the state might decide to participate financially. Article 6 provides that if the state does make such an investment, the state's ownership and management role should be temporary --- through the development phase only --- and that the state's shares in the project should ultimately be distributed to Alaskans under this program.

Alaska General Stock Ownership Corporations (AGSOCs) are the familiar Kelso-Gravel idea. An article in the proposed legislation (not included here) would incorporate the major provisions of the bill reported by the House State Affairs Committee, but (in contrast to the current initiative) would require the legislature to act upon a complete financing plan before creating any AGSOC.

Alaska Investment Funds are regulated investment companies (mutual funds) empowered to invest in the securities of corporations doing business in Alaska, and Alaska Real Estate Trusts are real estate investment trusts (REITs) empowered to invest in Alaska real estate developments. Both kinds of enterprise are essentially passive investments and are in themselves exempt from federal income taxes (like AGSOCs); they are a way of increasing resident Alaskan ownership in major Alaska industry without the state's having to register as a securities underwriter.

The draft legislation also provides for distribution of securities in existing private enterprises. This provision would allow the State to buy blocks of shares in major Alaska businesses (fish processing plants, airline and communications companies, and the like), and to sell them to residents on easy terms in order to increase resident Alaskan ownership and control of important industries.

Natural resource trusts. The only wealth distribution plans that could be put to into effect under this program by the current legislature are probably Alaska Energy Resource Trusts. We believe that the effectiveness and credibility of the program demands that there be an early distribution of assets that have a certain, positive value. The first distribution must be one that neither requires a large front-end appropriation of money nor presents any risks to the citizens who receive the assets. Shares in oil and gas royalties --- specifically, royalties from the proved reserves at Prudhoe Bay --- seem to be the only kind of asset that can play this pioneering role.

The Prudhoe Bay Oil and Gas Royalty Trust of 1980 would commit royalties from only some of the leases at Prudhoe Bay, and only those royalties in excess of current

levels. Thus, the revenues conveyed to the trust would increase very rapidly with the decontrol of crude oil prices, and then fall off very rapidly as Prudhoe Bay production declined. We suggest the leases be chosen so that the average distribution per capita in the first year is in the \$100 to \$200 range --- large enough that people will have to take it seriously, but (in this first distribution) not enough to make a large dent in available revenues.

The Beaufort Sea Oil and Gas Royalty Trust of 1980 would commit royalties from Beaufort Sea leases sold in 1979. Any revenues produced from those leases would be distributed much later than the Prudhoe Bay royalties, and while the value of the certificates would probably be much greater, they would be a far more speculative property. Conceivably, the two plans could be combined into one plan that provided some certain near-term income, and some less certain but possibly far greater income, say, seven to ten years in the future.

The certificate holders would not have any voice in management of the oil and gas resource itself, and the trust indenture specifically makes the conveyance subject to any existing commitments of royalties. It also preserves the state's option to take royalty in kind --- it therefore creates no obstacles, for example, to fulfilling the Alpetco contract or to exchanging royalty gas for gas liquids to be used in Alaska petrochemical development. But the plans will certainly create a greater citizen identification with the North Slope oil and gas resource, and a more intense and informed interest in state and federal policies affecting those resources.

These plans would probably make Alaskans more receptive, for example, to state financial participation in the

gas line, especially if state involvement can reasonably be expected to accelerate its completion --- and thereby the flow of gas royalties. The plans would also create a broadly-based Alaska constituency pressing to maximize the wellhead value of the state's oil and gas, and resisting proposals to give away or discount the state's royalty for any purpose. (After all, the people will recognize, as they may not fully appreciate now, that these decisions involve their own money.)