Suggestions By Public

Peat Marwick

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Please circulate

January 8, 1988

Governor Steve Cowper
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

During the past several weeks an Economic Recovery Task Force has been meeting to discuss the status of the Anchorage economy and proposed solutions. The attached listing of members of the Task Force indicates the breadth and depth of the community participation. The Task Force was initiated by the Anchorage Chamber of Commerce and the Task Force recommendations will be submitted to the Chamber of Commerce Board of Directors at its meeting on January 15, 1988. However, the Task Force wanted to submit to you its findings and recommendations at the earliest possible date, whether or not they are approved by the Chamber Board of Directors.

The findings of the Task Force were passed unanimously by the Task Force members. I must add that not every member agreed with every specific recommendation. However, there was no exception to the finding that the economy in Anchorage is depressed and there is no immediate indication there will be an economic rebound. While there is tremendous support for letting the market forces guide the economy, there is the strong belief that appropriate government intervention can assist without further aggrevating the functioning of the economy.

The Task Force members recommend you adopt the recommendations as your own, and the members pledge their support for you in implementing any of the recommended programs. We look forward to working with you as we navigate through these troubled waters.

Very truly yours,

Signed

Joseph E. Heintz

ECONOMIC RECOVERY TASK FORCE

The task force recommendations are based upon a general consensus that Anchorage is suffering from an economic recession and, while the economic decline may be slowing, there is no immediate turnaround in sight. In fact, the recession may result in the loss of another 10,000 to 15,000 people from Anchorage during 1988, further disrupting many of the basic sectors of the local economy.

The task force concluded that the economic recession is not limited to a specific interest group. For example, it isn't only the banks that are suffering from the economic decline. Virtually every homeowner in tne Municipality of Anchorage has lost at least 30 percent of the value of their residential property and further declines can be anticipated. In fact, most homeowners in the Municipality of Anchorage are now probably "under water" with respect to their mortgage, i.e., the mortgage balance exceeds the fair market value of the residential property.

The recommendations of the task force are not intended to be a subsidy. Rather, for the most part they are a restructuring of existing programs, recognizing the changed economic circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

* The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.

* The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

* For residential property:

  ** Remove sub-standard housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.

  ** Ship mobile homes that have been vacated out of the state.

  ** Convert existing condo or similar units to University of Alaska student housing.

* For commercial property:

  ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

* Bank administered with AIDEA guarantee.

* Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.

* $1,000,000 limit on loan.

* Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say $50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

* An applicant could apply for capital funds up to

$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive $1 of State funds to the extent the applicant put in $1 of private sector funds.

* The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.

* The criteria for qualifying may be that for each $1 million of State participation, five new positions must be created.

* The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein members of the public are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

SECOND DRAFT

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

Submitted to the Assembly
by Mayor Tom Fink, January 19, 1988

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

I. Anchorage's Current Economic Condition

II. Objectives of the Economic Recovery Program

III. Description of the Economic Recovery Program

IV. Economic Recovery Program Elements

V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

Anchorage has been hit hard by the Alaska recession. The statistics are dramatic, but give only a glimpse of the suffering and despair felt by so many residents. Nearly 15,000 jobs (and the associated incomes) have been lost in Anchorage since January 1986. The rate of job loss is higher in Anchorage than in the state as a whole.

Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over $5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate in excess of 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing cutbacks in excess of $14 million. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

The length of this recession in uncertain. Although employment is still falling, the <u>rate</u> of decline has lessened, at least temporarily. But, even when the nadir is reached, local economic problems are not over. The natural readjustment process is painful; projected future growth is slow.

II. OBJECTIVES OF THE ECONOMIC RECOVERY PROGRAM

A. Purpose: The purpose of the Municipality's program for economic recovery is to mitigate the problems caused by the current economic recession to decrease the depth and severity of this recession, and to contribute to the long-term stable recovery and growth of the Anchorage economy.

B. Objectives:

* Create jobs for local residents; avoid further job losses. (Rationale: Jobs generate income which then cycles through the economy in a manner based on choices by individuals; increased incomes enable individuals to meet obligations and avoid financial ruin.)

* Establish a floor under falling residential and commercial property values. (Rationale: Stabilization of property values is necessary to begin the correction of the imbalance between supply and demand and to reestablish confidence in the local economy.)

* Provide interim relief for businesses. (Rationale: Target limited resources to maintain ventures which will not require continual, long term subsidies to survive. Provide for limited, well defined involvement of government in the private economy.)

* Reduce costs or avoid cost increases to businesses and individuals. (Rationale: Alleviate business and personal financial distress by reducing costs of living and operations; for example, utility increases, increased cost of regulations, taxes.)

III. DESCRIPTION OF THE ECONOMIC RECOVERY PROGRAM.

Anchorage's program for economic recovery is organized in two phases. Phase 1 includes the immediate requests for state action, concentrating on areas which can begin to impact the economy in the short run or those actions which can be pursued administratively. Phase 2 is directed to the longer term situation -- those projects and proposals with longer lead times or which require additional analysis and evaluation. In this second phase, more emphasis is placed on activities which provide for the economic growth which must underlie real and lasting recovery for Anchorage and all of Alaska.

Section IV outlines the primary elements of these two phases. Both phases contain recommendations for capital projects. The specific projects are based on a set of criteria described in Section V. That section also contains descriptions of the individual projects, which are divided into two stages on the basis of timing factors described.

IV. ECONOMIC RECOVERY PROGRAM ELEMENTS.

A. Phase 1 - Immediate State Action

* Supplementary Municipal Assistance of $400 per capita (Anchorage share about $90 million)

  - Purposes:

    Keep taxes and utility rates down
    Avoid further layoffs
    Get small/local capital projects underway

  - Advantages:

    Local option so can apply to local priorities
    Short lead time (quick implementation)

* Early State Capital Appropriations for projects with immediate start-up and/or federal match projects.

  - Purposes:

    Employment
    Repair and rehabilitation (lower O&M costs)
    Economic Development (infrastructure)

  - Advantages:

    Impact employment in hard hit sector
    Multiplier impacts help support sector

* Government investment in commercial real estate, with strong consideration given to Permanent Fund as investor.

  - Purposes:

    Stabilize market - regain balance between supply and demand
    Re-establish confidence in the economy
    Speed readjustment

  - Advantages:

    Potential for long run return on investments initially made in distressed markets

* Other short term requests

  - Real Estate Market stabilization

    AHFC and AIDEA take administrative action to assist borrowers.

University of Alaska Anchorage purchase of foreclosed condominiums for student housing.

ASBA remove substandard housing from market, utilize foreclosed properties for housing.

Actions to discourage auctions and other forms of dumping of real estate.

- Employment

Bradley Lake - fast track APUC review exemption

Court Building financing - fast track project.

B. Phase 2 - Longer Term Economic Recovery Program

Phase 2 elements are being developed. Specific proposals have not been finalized. A series of proposals and actions are being evaluated--including the items listed below.

* Local development opportunities

  - Home Port, location of Navy installation in Southcentral Alaska

  - 1994 Winter Olympics

  - Ski Resorts

  - Ship Creek Development

  - Tourism Promotion

* Stabilize taxes and utility rates

* Extra Permanent Fund Dividend payments

* Heritage Land Bank as a source of land for industrial development

* Railbelt Energy Fund for railbelt energy projects

* Legislation permitting use of tax incentives for business development

* Streamlining of local permitting requirements

* Local purchase/import substitution

V. Proposed Capital Projects

The following list of projects has been developed and grouped based on criteria geared toward generating an immediate stimulus to the professional design/engineering and construction sectors of Anchorage's economy. Primary criteria favored projects which are ready to proceed, labor intensive, employ local workers and reduce Municipal operation and maintenance costs. Secondly, we considered projects which maximize use of local materials, have been endorsed through the public review process, have positive life safety and health impacts, and are a positive influence on future economic development.

A. High Priority-1988 construction: High priority projects which can be constructed in 1988.

* Group I - Projects that have been specifically endorsed by the Assembly as top priority.

* Group II - Other high priority projects identified by the Administration which can be constructed in 1988.

B. High Priority-1989 construction: High priority projects endorsed by the Assembly or identified by the Administration which, due to the constraints of design, right-of-way acquisition or permitting, cannot be bid for construction until 1989 or 1990.

Assembly project priorities will be candidates for funding from the $400 per capita distribution. If funding is insufficient to cover all projects they will be considered for any early State capital appropriation (jobs bill) and lastly, the end of session State capital budget.

ANCHORAGE CAPITAL PROJECTS

Name of Project	1988 ($000)	Notes
HIGH PRIORITY - 1988 CONSTRUCTION		
GROUP I - ASSEMBLY PRIORITIES		
Lake Otis Parkway, III (Tudor to Dowling)	$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain)	$11,400.0	ROW acquisition $4.2M Roadway construction $7.2M
Hiland Road	$ 500.0	Road improvement and slope stabilization - needs design
Santa Maria Drive	$ 850.0	Upgrade gravel road - design is being negotiated
Hiland Bridge Pedestrian Walkway	$ 450.0	State DOT project. Widen pathway from 8' to 12' on future bridge. Under design for 1988 construction.
36th Avenue (Arctic to Spenard)	$ 4,800.0	ROW acquisition funded; roadway and landscaping construction
East 6th Ave. (Muldoon-Cherry)	$ 2,000.0	Road Construction - needs design
Lake Otis Parkway, IV (66th to Abbott)	$15,800.0	ROW acquisition $2.1M; roadway and landscaping construction $13.7M
Arctic Blvd. (Raspberry to Dimond)	$ 3,500.0	Utility relocations and construction $3.5M
Huffman Rd. (New Seward to Bragaw)	$ 3,500.0	Bid package ready by July, State DOT project
Baranoff	$ 1,620.0	Upgrade gravel road - design is being negotiated
Klondike	$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads	$ 900.0	Strip paving. Design negotiation underway
Lake Otis (O'Malley-Huffman) signalization at Huffman	$ 3,100.0	ROW acquisition $.3M; design $.4M; and construction $2.4M. Potential private development under reimbursement plan.
ARDSA Rehab Projects	$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design

Name of Project	1988 ($000)	Notes
GROUP I - ASSEMBLY PRIORITIES (continued)		
Hillside Drainage Plan Phase I Study	$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	($ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	$57,490.0	
GROUP II - OTHER PRIORITIES		
Windemere Phase I Reconstruction	$ 697.0	Paving, curbs, drainage. Design complete, construction contract awarded
Central Business District Rehabilitation	$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
Post Road	$ 448.0	Paving overlay (design 95% complete)
Ocean Dock	$ 170.0	Paving overlay (design 95% complete)
Lakeview Terrace	$ 1,720.0	Subdivision reconstruction, roads and drainage. Under design for summer construction.
Emerald Hills	$ 1,357.0	Subdivision reconstruction roads and drainage. Under design for summer construction.
Heather Meadows Phase III	$ 724.0	Subdivision reconstruction roads and drainage (design 50% complete)
Municipal Building Energy Projects	$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of $140,000 in future annual O&M costs.
Town Square Park	$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
ADEC Sewer and Water Match	$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
Water/Wastewater Repair and Rehabilitation	$ 1,200.0	Replace antiquated woodstave water and sewer lines and outdated clay sewer pipe in downtown and Government Hill
Golden View Water Extension	$ 750.0	Construct 24" oversized water line and pump station in the Golden View area - being designed
Girdwood Wastewater Treatment Facility	$ 2,700.0	Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek $1M - in design
Hiland Drive Project	$ 2,770.0	Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.
Port/Landfill Development Project	$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.
Merrill Field Runway Construction Grant (matching grant)	$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway $2.3M. Grant is being processed, design to be completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
Public Works - Deferred Municipal Building Maintenance		
Historical Fine Arts Museum	$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	$ 150.0	Heating system replacement (design complete)
Woodland Park School	$ 78.4	Heating system repairs - 3-4 weeks designs

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Municipal Buildings Roof Repairs	$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings	$ 110.0	Small painting projects on 14 building interiors and exteriors
Fleet Service Building	$ 125.0	Fire sprinkler system - 4-5 weeks design required
Transit Storage Building	$ 57.5	Repair doors and floor
Hill Building	$ 12.0	Upgrade air conditioner in 5th floor computer room
Gateway Park (International Airport Road)	$ 125.0	Replace underground sprinkler system for landscaping - 2 weeks design required
West Chester Lagoon Park	$ 35.0	Replace underground sprinkler system for landscaping - 2 weeks design required
Libraries and Maintenance Shop	$ 37.0	Construct and repair interior walls and carpet
Asbestos Abatement	$ 1,300.3	- Fire stations $173,300 (design complete) - Old City Hall $250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center $326,400 (design - 2-3 weeks required) - Public Health Facility $363,600 (design 2-3 weeks required) - Other municipal buildings $186,500 (design - 2-3 weeks required)
Parks and Recreation - Meet additional criteria of life/safety improvements		
Delong Lake Park	$ 50.0	Replace public use dock
Nunaka Valley Park	$ 25.0	Replace broken playground equipment
Jewel Lake Park	$ 130.0	Playground and equipment repair, dock replacement
Goose Lake Park	$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	$ 50.0	Replace public use dock
Sand Lake Park	$ 50.0	Replace public use dock

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
University Lake	$ 70.0	Bike trail bridge replacement
Valley Street	$ 85.0	Lake shore steep bank improvements
Taku Lake	$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System	$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Parks and Recreation Improvements		
Willow Housing Park	$ 45.0	Park repair and rehabilitation
Browns Pt. Park	$ 40.0	Park repair and rehabilitation
Delaney Park	$ 260.0	Top soil and reseed
Duldida Park	$ 85.0	Park repair and rehabilitation
Kanchee Park	$ 85.0	Park repair and rehabilitation
Fairview Park	$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	$ 35.0	Entry road improvements
So. Russian Jack Springs Park	$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	$ 80.0	Parking improvements
Lyn Ary Park	$ 30.0	Repair and rehabilitation
Campbell Park	$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden	$ 20.0	Soil and parking improvements
Cope Street Park	$ 35.0	Repair and rehabilitation
Wilson St. Park	$ 35.0	Repair and rehabilitation
Pena Field	$ 45.0	Parking and playfield improvements
Davis Park	$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	$ 180.0	Tennis court, walkway and park rehabilitation

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Storck Park	$ 200.0	Playfield, playground and park improvements
Fence, Barricades and Backstop	$ 100.0	Repair and/or replacement of existing park fencing, barricade and backstops
Sand and Soil Cleaning and Replacement	$ 100.0	Replacement and improvements to swimming beaches and sand lots
Parking Repair	$ 200.0	Upgrading of existing parking areas and drainage repairs
Eagle Glenn Park	$ 5.0	New park improvements
Spirit Park S. Fork	$ 5.0	New park improvements
Town Square	$ 15.0	Park improvements
Schroeder Park	$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	$ 160.0	Construction
Chief Alex Park	$ 15.0	Park improvements
Mirror Lake	$ 55.0	Drainage and parking improvements
Girdwood	$ 120.0	Pathway completion
Girdwood Water	$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Subtotal	$41,262.9	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	$98,752.9	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	$ 390.0	Upgrade gravel road - design is being negotiated

Name of Project	1988 ($000)	Notes
HIGH PRIORITY-1989 CONSTRUCTION (continued)		
Spenard Road, III (Turnagain to McRae)	$ 7,100.0	Roadway and landscaping construction $7.1M
Dimond Blvd. (New Seward to 88th)	$ 4,700.0	Design $.6M; ROW acquisition $4.1M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	$ 5,600.0	Design $.5M; roadway and landscaping construction $5.1M
Hillside Drainage Plan Phase I Implementation	$ 5,000.0	Implementation of drainage improvements - needs design
Birch Road, Huffman to DeArmoun	$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	$ 5,700.0	Road construction
Windemere Phase II	$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	$ 38,890.0	
TOTAL 1988/1989 CONSTRUCTION	$137,642.9	

88cib/n/g4

ANCHORAGE CAUCUS

ALASKA STATE LEGISLATURE

SENATE

Abood, M.
Faiks, J.
Halford, R.
Josephson, J.
Kelly, T.
Kerttula, J.
Rodey, P.
Sturgulewski, A.
Szymanski, M.
Uehling, R.

HOUSE

Barnes, R.
Boucher, R.
Brown, K.
Collins, V.
Cotten, S.
Donley, D.
Ellis, J.
Furnace, W.
Gruenberg, M.
Hanley, A.
Martin, T.
Pearce, D.
Pettyjohn, F.
Phillips, R.
Pourchot, P.
Rieger, S.
Zawacki, J.

A G E N D A

January 25, 1988

TIME: 2:00 p.m. - 2:30 p.m.

LOCATION: Senate Finance Committee Room, Room 518, Capitol

I. Call to Order

II. Roll Call

III. New Business

A. Mayor Tom Fink--Municipality of Anchorage Economic Recovery Program, Suggested Legislative Program, and Options to Improve the Alaskan Economy

IV. Other Business

V. Announcements

VI. Adjournment

SUGGESTED LEGISLATIVE PROGRAM

1. A strong economic stimulation package consisting of the following as possible measures:

   a. Municipal Assistance in the amount of $100 million dollars at the rate of $200.00 per capita to each local government.

   b. A substantial capital improvement program not including buildings, but including deferred maintenance on buildings, and roads.

   c. A residential loan modification agreement through AHFC which would enable people to reduce their payments and the extra interest added onto the tail end of the loan.

   d. Tear down the old sub-standard ASBA buildings and ASBA buy new buildings from AHFC and give it a note until such time as ASBA gets federal money to do it.

   e. Commercial loan modification agreement at AIDA and the payments reduced and the interest added onto the tail end of the loan.

   f. A program to buy out some foreclosed mortgages of commercial properties such as Zamarello's strip malls at 1984 land values, and then boarding up or tearing down the buildings.

   g. An extra dividend.

   h. Legislation to authorize Bradley Lake to go forward without APUC's approval.

   i. Offer up to $100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.

   j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.

   k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.

   l. Pay off local government bonds.

   m. A Job Corps Program.

2. A $100,000,000 Capital Improvement Program for Anchorage, the following projects with a priority as shown:

   (See Attachment)

   Last item -- 16 million for miscellaneous capital improvements.

OPTIONS

TO IMPROVE THE

ALASKAN ECONOMY

DAR/JAN 88

DAVE ROSE

This paper summarizes the present economic situation within Alaska; discusses fundamental economic principles which must be adhered to in order to create a lasting and positive change for improvement; and sets forth a series of detailed options for implementation.

Alaska's Economic Situation

Alaska's present plight can be summed up in two simple words -- "Excess Capacity".

Alaska currently has:

- Excess residential housing to include condominiums and mobile home units
- Excess strip malls
- Excess shopping mall space
- Excess office space
- Excess industrial and warehouse space
- Excess (high) retail inventories
- Excess work force as manifested by unemployment rates

True, there are some sectors of our economy which are doing well -- fishing, timber and tourism. These should continue to prosper as long as the dollar retains its low valuation relationship to the yen and other currencies. Some of Alaska's hard-core base industries (not always appreciated during the oil boom but now winning long-deserved recognition) include the military and Federal government sectors which offer high prospect of growth.

This paper will primarily concern itself with real estate because it is clear that the excess capacity referred to above relates predominantly to real estate and its support industry of: banking and mortgage institutions; private mortgage insurance companies; highly leveraged investors and mortgagees; real estate sales firms; and governmental institutions which now hold ownership in: loans secured by real estate; defaulted or delinquent real estate loans; and foreclosed upon property.

Fundamental Economic Principles

It should be clear to any student of basic economics that the supply curves of certain elements of the Alaskan economy are out of

desired equilibrium with demand. Conversely, demand curves are out of desired equilibrium with supply.

In short, the long-term solution to our problem can be found in:

(1) Decreasing available supply.

(2) Increasing business and consumer demand.

(3) A blend of the two.

Unless our actions result in a permanent movement of either the supply or demand curve, or both, any benefit will be fleeting, costly and of no long-term consequence.

We do not require the implementation of actions which can be termed as "political", "placebo", "quick fix", or "bailout".

What we do need are well-thought-out approaches that effectively reduce (and certainly not increase!) supply. Increasing demand is a tougher venture because in almost all cases it falls outside of effective unilateral action.

Programs and Actions

The following options are submitted for consideration. Some programs are dependent on others; some stand alone. The adoption of any, all or a portion of a single option may be beneficial. The rejection of a particular option should not negatively affect viewpoints on others. Many of these options are not new; some are simply being set forth in writing for the first time. All are in the public domain.

1. Move Supply Curve (decrease supply) Permanently

Create an entity or a subsidiary of an existing entity such as AIDA.

Vest that entity with funds on a loan or grant basis from the General Fund of the State.

Entity purchases developed property held as "real estate owned" by financial institutions, mortgage companies, mortgage insurance companies, and governmental agencies such as FDIC, AHFC, AIDA, Permanent Fund. Purchase is for land value only.

Following acquisition, entity removes improvements thus reducing supply but retains underground utilities.

Entity holds what is now vacant land for the long term and eventually sells at acquisition value or (hopefully) appreciated value.

Proceeds of sales are returned to the State which has bankrolled the operation. Or vacant land is returned to the State and appropriated to a long-term trust. (Mental Health, Public Education, Permanent Fund, etc.)

2. Move Supply Curve (decrease supply) Permanently

Demolish and do not replace old and deteriorating low-income development housing, such as Hollywood Vista and Willow Park.

Aggressive action on the joint State-Federal level must be taken. If the Federal government will not act, the State must be prepared to take quick and decisive unilateral action -- at its expense.

Occupants of demised developments are placed in AIDA-or AHFC-owned multi-family or condominium units. To the degree necessary, condo owners will be given the opportunity to trade their units for other AHFC-owned property.

AIDA/AHFC will be reimbursed for their housing assets used by this program. Funds utilized are from Federal and/or State sources. The program should be coordinated by the Alaska State Building Authority.

3. Move Supply Curve (decrease supply) Permanently

We must step back and review the thought process involved in continually spending huge sums of money on maintaining mobile homes. There is a huge excess and no demand. Clearly, since there is no demand for the foreseeable future, this must be recognized and acted upon. Spend a few dollars for some full-page advertising in active construction areas around the world, find a buyer, load them on a barge and remove them from the state. Funds saved on maintenance and ground rent could be channeled toward work outs or rescheduling loans on quality assets.

4. Move Supply Curve (decrease supply) Five Years

Create a financial entity empowered to act like a bank -- except for receipt of consumer deposits -- under State regulation.

Regulation is important to assure that the entity does not become a super bank in competition with existing Alaskan financial institutions.

The entity is capitalized with stock or debentures or a combination thereof.

Stock is issued in exchange for real estate owned, defaulted loans and delinquent loans held by: FDIC; banks; mortgage companies; mortgage insurance companies; and state governmental agencies. Non-producing assets are exchanged for preferred stock which provides a minimal (but better than non-producing) return.

The entity is permitted to buy, sell and trade real estate. It is to service and collect on loans; to work out loans; and to reschedule debt. It may invest in financial assets.

It must do everything necessary to convert illiquid assets into cash and into income-producing cash assets while covering expenses and eventually making a profit.

The entity would sell off assets over the long term with major emphasis on stabilization.

As the entity becomes profitable and liquid, it distributes paid-in-capital and dividends.

NOTE: In the event that the entity cannot be capitalized entirely with problem assets, consideration may have to be given to an initial State grant or loan to <u>partly</u> fund the capitalization.

5. <u>Stabilize Supply Curve (keep increases in supply to a minimum) Five Years</u>

The board of directors of AIDA (Alaska Industrial Development Authority) should place a moratorium on the financing of construction of new commercial or industrial facilities.

This moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others. AIDA would continue to finance existing structures with changing ownership.

Obviously, the curtailment of new activity assists local government in that controls on new supply create value in existing supply and thus stabilize or raise assessed valuation used in the computation of ad valorem taxes.

Curtailment of new activity can have a chilling effect on economic development in communities where there is no excess capacity in commercial or industrial facilities or in communities where a special purpose facility is required. It is envisioned that a moratorium would remain in effect unless the local governmental unit which is intended to be the beneficiary of the moratorium formally requests its waiver by the action of its local city council or borough assembly.

6. Stabilize Supply Curve (keep increases in supply to a minimum) Five Years

This is similar to the proposal for AIDA except it applies to residential housing financed by AHFC, PERS, TRS, Permanent Fund and any other State line organization or agency.

Place by board, commissioner or trustee action, a moratorium on the financing of construction of new residential housing units to include single and multi-family residences, including condominiums and mobile homes. The moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others.

Existing housing stock which is changing ownership would continue to be financed by the respective agencies and organizations.

The curtailment of new supply will create value in existing supply and thus stabilize or raise assessed valuations used by local governments in the computation of ad valorem taxes.

This program, similar to its complimenting commercial and industrial program, contemplates that the moratorium can be lifted at the request of the local government governing body.

7. Stabilize Supply Curve (keep increase in supply to a minimum) Three Years

The State of Alaska is planning to construct an addition to its court complex in downtown Anchorage. This facility is important to the Court System and to the Municipality of Anchorage as it centralizes expanded court activity and anchors downtown economic activity against mid-town drift. Also, the project is important in that it does produce a substantial number of construction jobs.

Unfortunately, the creation of new office space supply at the same time that huge excess exists is self-defeating from a macroeconomic perspective. If this project is to be completed within the concept of stabilizing supply, it can be done in such a way that it meets immediate Court System needs on one hand and defers meeting other needs for a three-year period.

Here, the building would be constructed as planned. However, only essentially needed courtroom space would be finished. Other space -- office space available through existing supply -- would not be finished in the initial phase. A subsequent construction phase, perhaps three years after completion of phase I, would provide the needed office space.

Absent this kind of compromise which curtails the wrong kind of supply (offices) and permits the right kind of supply (courtrooms), the project should be deferred.

8. Stabilize Supply Curve (keep increases in supply to a minimum) Three Years

Local governments have a strong, vested interest in the stabilization of supply. To the degree that new supply can be curtailed, value to existing supply increases as does assessed valuation and the local tax base.

Expansion in many communities has required the rapid extension of utilities. In some cases this extension has been imprudent in that it has leap-frogged undeveloped areas to reach new residential or commercial subdivisions.

The expansion has been imprudent -- in an economic sense -- because the rate base of the new development does not always carry the operation, maintenance or debt service costs of the extension.

Local governments should be encouraged to place moratoriums on utility expansions, rezonings and replats to discourage the new construction of the types of developed real estate now in excess. Flat moratoriums in this area offer a better prospect than selective ones because of inherent fairness and equal treatment to all.

9. Move Demand Curve (increase demand)

To the degree that demand can be stimulated to reduce or eliminate excess capacity, such stimulation should be encouraged.

If major financial institutions such as pension funds, endowments, foundations, the Permanent Fund, etc. -- who are long-term buyers and holders of commercial and industrial property -- can be induced to take major, institutional-grade buildings off the market for a long period of time, such action could remove upwards of $50 million from the current real estate marketplace.

The absorption of this "high end" sector of the market has the impact of channeling investment capital of other (smaller) investors toward the distressed portfolio of loans.

The importation of investment capital through the formation of investment pools would increase the demand for ownership of Alaskan real estate and fundamentally move the ownership demand curve.

This proposal, however, would not move the demand curve for office space occupancy since investors only bring their money and not new tenants to the table. However, any ownership diversification outside of Alaska brings with it a degree of outreach, new contacts and beneficial exposure.

10. Move Demand Curve (increase demand)

Alaska has been the beneficiary of "settlement waves" in the past such as the gold rush, building of the railroad, construction of military bases, statehood, and pipeline construction.

Each new wave of Alaskans has contributed to the economy and stimulation of the next wave can create some of the demand needed to reduce excess capacity and stimulate economic activity across many business sectors.

Perhaps Alaska's best opportunity lies with the military. Restructuring of some domestic and overseas forces with Alaska as the beneficiary would have a dramatic impact.

Navy homeporting is on everyone's lips. But it can only occur in the context of a well-thought-out plan, positive naval interest and the actual execution of long-term leases and agreements which are clearly advantageous to Alaska and its people. It is strongly urged that Alaska not embark on a program which provides for construction of infrastructure in hopes of "luring" the navy. Secure the firm, documented commitment and then as part of the agreement, utilize State resources as necessary.

The Army, Air Force, and Coast Guard have been mainstays of our economy for many years. Recently, these institutions have taken a back seat to the glitter of black gold and its overwhelming economic power. It's time to return to a full appreciation of these military institutions and to actively pursue a greater presence in the state. As the balance of trade continues to falter, some consideration may have to be given to a restructure of some foreign-based units (Korea, Germany). Alaska should open initiative's to welcome shifts should they occur.

11. No Fundamental Change to Supply or Demand

The easiest measure -- but one with virtually no positive long-term impact -- is a capital projects appropriation.

Elements of the construction industry have been hit hard and it is apparent that we will not need new residential, commercial, industrial, office and strip mall construction for many years to come. This sector cannot and should not be propped up lest we either provide wasted subsidy or create false expectation. Jobs must be centered around preventative and actual maintenance of existing roads, ports, airports and governmental facilities rather than new construction which creates a need for increased operation and maintenance costs.

It is suggested that rather than expend a huge amount of funds on a placebo, some should be diverted toward activity which will fundamentally affect supply and demand, some of which is set forth in this paper.

12. A Caution

Both AIDA and AHFC have some unencumbered capital. This has been eyed -- covetously -- by those who feel that these "pots of money" are available for appropriation for "quick fix" programs or for funding additional programs or functions assigned to these two agencies. This capital should be viewed as reserves critically required by the agencies to support existing programs in this time of stress. Before consumption of these funds is seriously considered, inquiry should be made to respective agency boards of directors.

In Summary

* Raze uneconomic residential and commercial buildings
* Raze deteriorating low-income residential units
* Sell excess AHFC-owned mobile homes
* Create a work-out bank emphasizing stabilization
* Moratorium on new construction of residential and commercial properties, subject to local government waivers

* Construct the Anchorage Court complex addition in phases

* Moratoriums on local government utility expansions, rezonings and replats

* Encourage institutional purchases of quality commercial and industrial properties

* Seek agreement regarding Navy homeporting before initiating construction of infrastructure

* Regarding construction projects, emphasize preventative and actual maintenance rather than new construction

* Leave existing capital reserves in AHFC or AIDA

January 29, 1988

MEMORANDUM

TO: Jan

FROM: Dave

SUBJECT: Dave Rose's "Bridge Bank"

The idea would be to create an entity which would act like a bank. It would work like this: an institution or agency (AHFC, FDIC, private banks, Commission on Postsecondary Education) would give the "Bridge Bank" real estate and delinquent loans, in exchange for stock or debentures, or a combination.

Thus, these non-producing assets are exchanged for an interest (maybe preferred stock) in this new entity. Initially the Bridge Bank might produce only a minimal return, but it would be better than what these assets are currently generating.

The Bridge Bank would then buy, sell, and trade real estate and other loans, and reschedule debt to maximize the revenue from the overall portfolio. It would do everything possible to convert illiquid assets into cash and income producing assets while covering expenses and eventually making a profit.

Rose says it would probably take about $15 - 20 million to get the Bridge Bank initially capitalized. This financing could come from private sources, but more likely it would come from an agency like the FDIC. Currently the FDIC is spending a lot of money trying to deal with these non-producing assets, and they could probably solve their problems for less money by giving the assets and some initial capital to the Bridge Bank. As a last resort, consideration may have to be given to an initial State grant or loan, but Rose says that in all likelihood this

would only be necessary to capitalize a part of the $15 - 20 million.

Rose says this is very similar to how he started AIDA 8 years ago, a small initial capital outlay for substantial potential long term returns. He says this way the problem gets solved without a big state financial bailout.

J.E.R.C. 2/1/88

AHFC percentages from Comm Tony Smith-

..3,700 foreclosures
..5,000 total potential
..single family housing market is solid
..13.8% of foreclosures are condos
..12.7% of foreclosures are duplexes
..1,000 mobile homes
..expects to restructure 5,000 -10,000 loans

2% amendment legislation will be introduced to both houses.

AIDA will offer 75% refinancing if cash equity is kept in state.

Bridgebank concept will require amendments to Title 6 to allow director of banking to exercise authority over non-depository institutions.

STEVE COWPER
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 2, 1988

The Honorable Arliss Sturgulewski
Alaska State Legislature
P.O. Box V
Capitol, Room 427
Juneau, AK 99811

Dear Arliss,

Enclosed please find a directory prepared by my policy office which identifies current and proposed programs which over the next 18 months will have direct positive impact on Alaska's economy.

This is the first time that the state's budget has been described in such a way. The directory primarily addresses the direct connection between the operating budget and the private sector. However some loan programs and capital projects, such as Bradley Lake hydroelectric project, which will create at least 150 jobs near Homer and the Spring Creek prison which will offer more than 200 jobs in Seward, are also listed.

The enumeration of jobs created with public funds focuses on the private sector, although, for example, the Department of Education notes that the foundation formula it disburses contributes to the livelihoods of nearly 17,000 Alaskan educators.

I believe you will be surprised at how extensively the state's operating budget directly creates and stabilizes long-term private sector jobs for Alaskans. A number of programs that get very little attention go a long way in the private sector. For example, the state's Bank Monitoring Program worked hard to prevent closure of three Alaska institutions, thus preserving 434 bank jobs. The Dislocated Workers program trains Alaskans displaced by the downturn in the economy so that they may find other employment. It's estimated that 450 Alaskans will be able to find a job because of such training. Start-up of an Army National Guard Aviation Battalion will create 29 full time and more than 100 part time jobs in Nome, Bethel, Juneau, and Kotzebue.

These are just a few examples of how Alaska's operating budget puts Alaskans to work. I hope you have a chance to review this directory.

Sincerely,

Steve Cowper
Governor

Directory of Projects and Proposals with Direct Economic Impact

January 27, 1988

State of Alaska
Office of the Governor
Division of Policy

This directory identifies proposed programs and activities in the FY 88 and FY 89 budget with direct positive economic impacts over the next 18 months. Although this compilation is focused on the operating budget, the reader will also find loan programs and capital projects with special economic impacts listed under certain agencies.

The Division of Policy has collated information provided by each submitting agency. The data that are summarized in this compilation have been reviewed by the submitting agencies to enhance the accuracy and consistency of the original information.

OFFICE OF INTERNATIONAL TRADE

3601 C Street
Anchorage, AK 99503-5935
561-5585

Trade Leads

The trade leads program puts interested commercial and trading parties into contact with each other, for purposes of doing business. For example, the 16 new jobs and the $500 thousand contract for Alaskan glacier ice and bottled water delivered to Japan by Wetco, Inc., in 1987 was directly attributable to State-generated trade leads efforts.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Foreign Investments

The purpose of the foreign investments program is to attract foreign investments to Alaska. For example, Idemitsu Kosan was initially approached by the Office of International Trade through the Tokyo trade office. This year, Idemitsu Kosan signed a joint venture agreement on the Wishbone Hill bituminous coal development project in the Mat-Su Valley. Once developed, this project will produce more than one million tons of coal per year, and, under the current royalty structure, should bring the State approximately $1 million of royalty annually. Also, it should provide the Alaska Railroad with approximately $9.5 million in freight hauling fees.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

International Marketing

This new effort, initiated in FY 89, will consist of an international trade digest published on a regular basis by the Office of International Trade. The digest will facilitate the placement of advertising in foreign publications, targeting on trade shows.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Foreign Trade Offices

Foreign trade offices are maintained in Tokyo and Seoul, and an honorary trade representative is contracted in Taiwan. Through these offices, Alaskan producers obtain up-to-date foreign market information, ideas for new products, and introductions to foreign buyers.

One example of the value of these offices is the Idemitsu Kosan/Wishbone Hill coal development project, which began with the discovery by the Tokyo office that Idemitsu Kosan, Japan's largest energy company, was switching from petroleum- to coal-fired generators.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF ADMINISTRATION

P.O. Box C
Juneau, AK 99811-0200
465-2277

Risk Management/Assistance to Contractors

This program assists contractors in meeting State contracting requirements, and in that respect enhances the participation rate of in-state bidders and vendors.

Cost of Program: within existing budget; not broken out separately
Effects on Alaska Personal Income: increases in-state contract expenditures
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

New Procurement Code

The new procurement code provides greater efficiency and equity in procedures for meeting the State's procurement needs, and encourages greater participation by smaller vendors and suppliers.

Cost of Program: within existing budget not broken out separately
Number of Jobs Created: unknown; will favor Alaskan vendors
Effects on Alaska Personal Income: more contracts and expenditures retained in-state
Geographic Area of Impact: statewide
Commencement and Duration of Effects: 1/1/88 and on

Vacancy-Based Recruitment Program

This program entails two separate but related efforts. One is an outreach effort to inform local residents about State position vacancies, using electronic communications among State offices, Job Service Centers, and Legislative Information Offices.

The second is a monthly information dissemination effort focusing on recruitment for jobs in rural areas. It comprises a 5-minute radio program aired on some 30 rural

stations, a series of 30-second public service announcements on tape and hard copy, and monthly recruitment highlights that are provided to about 35 rural newspapers and 25 Native organization publications.

Cost of Program: within existing budget; not broken out separately
Number of Jobs Created: fills existing State positions statewide, with rural emphasis
Geographic Area of Impact: statewide, with rural emphasis
Commencement and Duration of Economic Effects: ongoing

DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

P.O. Box D
Juneau, AK 99811-0800
465-2500

Economic Development and Marketing Program

Existing and new staff will work to support regional economic and business development by providing information and technical assistance.

Cost of Program: $509.8 thousand (incremental)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate and ongoing

Alaska Housing Market Council

The Council provides statewide information and referral hot-line services (not intervention) to persons experiencing difficulties meeting residential mortgage obligations. Created by administrative order in March 1987, the program has a $400.0 thousand budget funded equally through the Permanent Fund, the Alaska Housing Finance Authority, the Alaska State Building Authority, and AIDEA.

The program currently receives approximately 50-80 calls per day, and to date has successfully averted a number of residential home loan foreclosures.

Cost of Program: $400 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

"Made In Alaska" Program

This program identifies products made in Alaska, and encourages Alaskans to purchase such products.

Many Alaskan artisans and craftspeople say that their retailers insist on them being certified under this program as it is a major selling point in the sale of such products.

Cost of Program: $2 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 3/21/86 - 6/30/88

Small Business Development Centers

This program offers a range of management and manufacturing assistance to owners and managers of Alaska businesses. It is jointly sponsored by the U.S. Small Business Administration, the University of Alaska statewide system, and DCED's Office of Enterprise.

Cost of Program: $200 thousand GF, $200 thousand federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 10/1/86 - 9/30/87

Minority Business Development Program

This program is designed to enhance the business opportunities of minority Alaskans by increasing minority participation in all areas of State procurement and economic development. Services offered include training, promotion, information and referral, and other forms of assistance.

Cost of Program: $75 thousand GF, $75 thousand federal funding
Number of Jobs Created: 667 fulltime (indirect), based on $20,000.0 thousand in procurement contracts received by clients
Effects on Alaska Personal Income: $16 million (indirect) @ 80% of contracts
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 4/1/87 - 3/31/88

Market Access Program (Bonding)

The MAP program conducts research on insurance and bonding markets, and provides related information to Alaskan businesses that are having difficulty obtaining insurance and bonding coverage.

Cost of Program: within existing budget; part of market surveillance
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Bank Monitoring Program

This program monitors events and developments in Alaska's banking and financial sectors, and provides bank examining services. Through its efforts, three Alaska banks were reorganized instead of closed, and some $400-$500 million in assets were saved from potential liquidation in Anchorage.

Cost of Program: $424.8 thousand
Number of Jobs Created: prevented closure of 3 banks, with total of 434 employees
Effects on Alaska Personal Income: $18.6 million (compensation for 434 bank employees)
Geographic Area of Impact: statewide, mainly Anchorage
Commencement and Duration of Economic Effects: ongoing

Investments Work-Out Program

The Investments Work-Out program, operated by the Division of Investments, offers assistance to borrowers if they experience difficulty in meeting their debt obligations with the State. By modifying loan terms, the program prevents the borrower's loss of assets through foreclosure by the State.

Cost of Program: $191.6 thousand
Number of Jobs Created: none, but job loss is prevented
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Alaska-Hire In Seafood Industry Program

Through this program, the Alaska Seafood Marketing Institute coordinates a cooperative newspaper advertising campaign aimed at encouraging Alaskans to seek employment in the seafood industry by registering with the Job Service. Ads are funded by the Department of Labor and the Pacific Seafood Processors Association.

The Department of Labor estimates that more than 9 thousand jobs in Alaska's seafood industry were filled in 1987 through the Job Service.

Cost of Program: $10 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87 - 12/87

Alaska-Hire In Tourism Industry Program

Through this program, DCED is attempting to increase the number of Alaskans who are employed in the tourism and visitors industries. The program works in concert with the Alaska Visitors Association and local sponsors to coordinate and sponsor newspaper campaigns advertising the availability of tourism-related employment opportunities around the state.

Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87 - 12/87

ARDOR Program (CIP)

Funding from this federal program provides technical assistance to regional economic development groups.

Cost of Program: $300 thousand federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate

Bradley Lake Hydroelectric Project (CIP)

The Bradley Lake hydro project is a $300 million hydroelectric power generation facility located on the Kenai Peninsula. Its construction, scheduled to begin this summer, will offer over 150 jobs. Financing comes from the Railbelt Energy Fund and revenue bonds.

This program requires new legislation (HB 356).

Cost of Program: $7 million (Railbelt Energy Fund) this year
Number of Jobs Created: 348
Effects on Alaska Personal Income: $75 - $90 thousand
Geographic Area of Impact: Kenai Peninsula
Commencement and Duration of Economic Effects: 7/88 - 9/91

APA - Four Dam Pool

Existing APA funds will be used to complete hydroelectric projects at Swan Lake and Tyee Lake (southeast), Terror Lake (Kodiak) and Solomon Gulch (Kenai), creating approximately 107 short-term jobs. While many of these jobs require skills in electrical, mechanical and

civil design and construction, a number of unskilled laborers will also be employed.

Small-Scale Rural Energy Cost Reduction Program (CIP)

This program consists of special limited-scale capital projects aimed at lowering the cost of energy in Alaska's rural and remote areas.

Cost of Program: $3.57 million Power Development Revolving Loan Fund (PDRFL); $28 million loan and bond funds
Number of Jobs Created: 105 (PDRLF), 325 loan and bond funds
Geographic Area of Impact: statewide, rural
Commencement and Duration of Economic Effects: 18 - 24 months

AIDEA - Red Dog Mine & Port Project

The infrastructure for the Red Dog Mine project, located in the Northwest Arctic Borough north of Kotzebue, includes construction of a port facility near Kivalina and some 52 miles of road accessing the actual mine site. Financing for the project comes from AIDEA.

Cost of Program: $150 million (bonding)
Number of Jobs Created: 200 construction, 400 operations
Effects on Alaska Personal Income: est. $20 million
Geographic Area of Impact: Northwest Arctic Borough
Commencement and Duration of Economic Effects: long-term

AIDEA - New Debt Financing Program

AIDEA's new debt financing programs are aimed at providing short-term liquidity and relief through interest rate buy-downs, and at assisting Alaskan producers in obtaining export financing.

REQUIRES NEW LEGISLATION HB 402

Cost of Program: $25 thousand
Number of Jobs Created: maintain existing jobs
Geographic Area of Impact: Anchorage
Commencement and Duration of Economic Effects: FY 89 - FY 90

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

P.O. Box B
Juneau, AK 99811-2100
465-4700

Financial Outreach Services to Encourage Recovery (FOSTER)

The Financial Outreach Services to Encourage Recovery program will assist communities with financial problems by providing financial planning, budgeting, revenue sources/projections and cost containment.

Cost of Program: $651 thousand
Geographic Area of Impact: Nome, Bethel, Dillingham, Juneau, Anchorage, Fairbanks
Commencement and Duration of Economic Effects: latter FY 88 and FY 89

Community Economic Disaster Loan Fund

Part of the FOSTER program involves the Community Economic Disaster Loan Fund, which will be used to assist those communities formally designated as economic disaster areas. Loans of up to 50% of the prior year's municipal assistance and revenue sharing entitlements will be tied to accountability and financial management training by C&RA.

This program will require enabling legislation.

Cost of Program: $600 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: latter FY 88 and FY 89

Rural Economic Development Initiative (REDI)

This program combines the Community Development and Services Block Grant and the Rural Development Assistance Grant programs to offer grants emphasizing individual and community self-sufficiency. Two new positions -- one in Bethel and one in Fairbanks -- will spearhead the effort to build community projects and train local residents to work on these projects.

Cost of Program: $1,981,000
Number of Jobs Created: 40 permanent community jobs eventually
Effect on Alaska Personal Income: increase income to communities
Geographic Area of Impact: rural areas

Commencement and Duration of Economic Effects: latter FY 88 thru FY 90

Job Training Partnership Act

This program provides federally funded employment training. The federally funded Job Training Partnership Act provides a variety of pre-employment and on-the-job training services through direct marketing and competitive solicitations that involve over 200 Alaska businesses and training agencies.

Cost of Program: $10,364,500
Number of Jobs Created: 856
Effects on Alaska Personal Income: increase income of participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Dislocated Workers

A $75.5 thousand general fund increment enables this portion of the JTPA program to maintain the FY 88 level for this program, which targets workers dislocated by the downturn in Alaska's economy, providing them with training to seek other employment.

Cost of Program: $800.5 thousand
Number of Jobs Created: 450
Effects on Alaska Personal Income: increase income of participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Child Care Programs

Child care programs include financial assistance grants for facilities, day care assistance grants for parents, education and training grants for practitioners and Head Start matching funds support.

Cost of Program: $11,234,900
Effects on Alaska Personal Income: increases disposable income of subsidized parents
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Conservation and Weatherization

These programs provide energy-related technical assistance, education and improvements to local communities using state and federal funds.

Cost of Program: $1,403,500
Number of Jobs Created: stable
Effects on Alaska Personal Income: Increase disposable income of participants
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Revenue Sharing

Payments to local governments under this program will be accelerated to enhance economic recovery. The Governor's proposal is to provide stable funding.

Cost of Program: $40,773,400
Number of Jobs Created: stable
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Municipal Assistance

This program provides financial aid to municipalities with an emphasis on reduction of property taxes. The Governor's proposal is to provide stable funding.

Cost of Program: $56,084,400
Number of Jobs Created: stable
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Housing Assistance Loan Fund (HALF)

Operations appropriations from the loan fund, loans from the revolving fund and a General Fund appropriation to the fund of $2.5 million will ensure that the residential housing loan needs of rural residents will continue to be met.

In addition, proposed new legislation will enable borrowers to use a residence for development of cottage industries.

Cost of Program: $2,821,700 operating (from HALF), $2,500,000 GF appropriation to loan fund

Number of Jobs Created: stable
Effects on Alaska Personal Income: facilitates loans on 320 rural homes (est. $95 thousand per loan)
Geographic Area of Impact: rural communities
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF CORRECTIONS

P.O. Box T
Juneau, AK 99811-2000
465-3376

Spring Creek Correctional Center

By October, 1988, the new Seward facility will be fully operational, employing a staff of 221 and providing 288 beds. Spring Creek's completion enables the State to return to Alaska most prisoners currently housed in federal institutions in the Lower 48.

Cost of Program: $12,688,000
Number of Jobs Created: 221 staff by October
Effects on Alaska Personal Income: return of prisoners currently incarcerated Outside increases jobs in-state
Geographic Area of Impact: Seward
Commencement and Duration of Economic Effects: latter FY 88 and on

DEPARTMENT OF EDUCATION

P.O. Box F
Juneau, AK 99811-0500
465-2800

Foundation Funding

Full formula funding continues top-quality K-12 education and provides economic stability for 55 school districts and REAA's.

Cost of Program: $411,913,000 GF, $30,077,000 OF
Number of Jobs Created: est. 16,700 employed by public schools
Effects on Alaska Personal Income: full funding to stabilize economy, provide best possible education
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89 and on

K-12 Support Programs

Increases in student lunch program (federal funding), Youth in Detention (Juneau expansion and Bethel start-up) and the Special Education Service Agency. Funding for pupil transportation continues at 90% proration.

Cost of Program: $41,836,700 GF, $17,100,500 OF
Number of Jobs Created: est. 16,700 employed by public schools
Effect on Alaska Personal Income: full funding to stabilize economy, provide best possible education
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89 and on

School Debt Reimbursement

School Debt Reimbursement continues at 90% of entitlement.

Cost of Program: $102,368,000 GF
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Mining Training -- Alaska Vocational Technical Education Center (AVTEC)

The AVTEC program, at $4,546,500, includes a $600 thousand mining training program for workers at the Greens Creek mine (Southeast) and Red Dog (Northwest).

Cost of Program: $600 thousand
Number of Jobs Created: 60
Effect on Alaska Personal Income: $1,024,000
Geographic Area of Impact: Southeast, Northwest Alaska
Commencement and Duration of Economic Impact: FY 89

Vocational Rehabilitation

Based on a 29% increase in the average weekly wage of clients at program completion versus the average weekly wage of client at referral, this program directly increases personal income by more than $1,078,600 per year. The multiplier effect has not been calculated.

Cost of Program: $12,957,200
Number of Jobs Created: 458
Effect on Alaska Personal Income: at least $1,078,600
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Adult Basic Education (ABE)

This group of programs increases job opportunity and productivity in addition to producing approximately 25% of all secondary degrees in Alaska.

Cost of Program: $1,768,800 GF, $307.8 thousand federal funds
Number of Jobs Created: est. 189 paid ABE staff
Effects on Alaska Personal Income: an estimated 500 persons obtained jobs following ABE training; 225 obtained better jobs or received increased wages following ABE training (FY 87 data, est. to be maintained in FY 88 and FY 89). Approximately 1,950 General Education Diplomas (GEDs) were issued statewide, representing 25% of all secondary diplomas issued in the State (FY 87 data, est. to be maintained in FY 88 and FY 89).
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

P.O. Box O
Juneau, AK 99811-1800
465-2600

Remote Maintenance Worker Grants Program

This program funds maintenance workers employed by Native health corporations to travel to villages to help operators trouble-shoot and repair water and wastewater systems. Through better operation, this program reduces system breakdowns, improves public health services and extends the life of these facilities.

Cost of Program: $504 thousand ($39.2 thousand incremental)
Geographic Area of Impact: West, Northwest, Interior
Commencement and Duration of Economic Effects: FY 89

Dairy Inspections

The dairy inspection program provides a direct economic benefit by increasing the marketability of Alaska milk products. The program ensures the safety, quality and shelf-life of locally produced milk.

Cost of Program: $79.6 thousand
Geographic Area of Impact: South Central, Interior
Commencement and Duration of Economic Effects: FY 89

Seafood Inspection

The seafood inspection program enhances the marketability of Alaska seafood products by ensuring consumer confidence in their safety and wholesomeness. The inspection program is a major part of the effort to prevent dramatic market declines which can result from the distribution of unsafe products.

Cost of Program: $1 million
Geographic Area of Impact: Coastal regions
Commencement and Duration of Economic Effects: FY 89 and on

Environmental Quality Programs

The in-state industry that has evolved to support DEC monitoring programs plays an essential role in helping DEC maintain and improve public health, as well as tourist and recreational resources.

Environmental Sanitation

The inspection of restaurants and other public facilities has a direct economic benefit by ensuring public and tourist confidence in the wholesomeness and quality of these operations.

Cost of Program: $875 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

DEPT. OF HEALTH & SOCIAL SERVICES

P.O. Box H
Juneau, AK 99811-0601
465-3030

Medicaid Program

This program saves the personal income of 46,000 Alaskans from being consumed by high-cost medical treatment, particularly for the elderly. In 1986, an estimated 697 positions in health care facilities throughout the state were directly attributable to funds received by these facilities from the Medicaid program. Indirect secondary employment related to the Medicaid program was estimated as equivalent to 193 jobs. Approximately 50% of the Medicaid program is funded by federal dollars.

Cost of Program: $81,121,700 in FY 88
Number of Jobs Created: est. 900
Effects on Alaska Personal Income: payments for 46,000 clients in FY 87 (average payment of $7.9 thousand for 65+, for 65+ total of $363.4 thousand)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

General Relief Medical Program

This program provides coverage similar to that of the Medicaid Program, for 18,645 persons who do not qualify for Medicaid but who require assistance for paying their medical bills.

Cost of Program: $8.55 million in FY 88
Effects on Alaska Personal Income: increased disposable income for 18,645 clients in FY 87
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

General Relief Assistance Program

Persons served by this program may receive up to $120 per month in the form of a housing payment. An estimated 1,085 persons will receive this assistance in FY89. The cost for 350 indigent burials also will be paid under this program.

Cost of Program: $1,670,800 in FY 88
Effects on Alaska Personal Income: max. of $1,562,400 (1,085 clients at max. of $120/month)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Adult Public Assistance Program

This program includes formula funding for Aid to the Blind, Aid to the Disabled, and Old Age Assistance. The FY89 formula funding is based on estimated service to 5,746 persons at $261.76 per month.

Cost of Program: $16,997,000 in FY 88
Effects on Alaska Personal Income: $18,049,000 (5,746 clients at $262/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Longevity Bonus Hold Harmless Program

This program replaces the federal financial assistance that individuals lose because of their longevity bonus payments.

Cost of Program: $2,925,100 in FY 88
Effects on Alaska Personal Income: $3,249,500 (1,237 clients at $218.91/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Aid To Families With Dependent Children

This program provides monthly cash assistance payments for children when the children are deprived of the support and care of at least one parent. The estimated benefit payment per client per month for this program is $655. The number of recipients estimated for FY 89 is 8,400.

Cost of Program: $59,821,300 in FY 88
Effects on Alaska Personal Income: $66,024,000 (8,400 clients at $655/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Foster Care Program

This program provides monthly reimbursements to foster families who care for children in State custody. The payments generally are not considered to be "income". Approximately 2,800 children (748 full-time equivalent) are cared for each year under this program.

Cost of Program: $7,368,000 in FY 88
Effects on Alaska Personal Income: 2,800 clients in FY 87
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Grants and Contracts

A total of 303 grants and contracts to fund a variety of health and social service programs were awarded to non-profit entities throughout the state for FY 88.

Cost of Program: $56,191,800 in FY 88
Number of Jobs Created: est. 1,430
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Bethel Youth Facility

This new program treatment extension to the Bethel youth detention facility will serve Bethel and all of the Yukon-Kuskokwim area communities; subject to the availability of funding, it could open almost immediately, construction of the addition having been completed. It will require 16 additional staff.

Cost of Program: $1,002,500 (operations increment for FY 89)
Effects on Alaska Personal Income: $1,397,000 ($821.5 thousand for personal services funding at 1.7 multiplier)
Geographic Area of Impact: Bethel area
Commencement and Duration of Economic Effects: FY 89+

DEPARTMENT OF LABOR

P.O. Box 1149
Juneau, AK 99802-1149
465-2700

Job Training Partnership Act and Dislocated Worker Programs

These programs, operated in conjunction with the Department of Community & Regional Affairs, provide economically dislocated workers with financial assistance and training for placement in a new job.

Number of Jobs Created: 1,306
Effects on Alaska Personal Income: increase income to participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Employment Security Programs

The employment security and services programs assist workers, including veterans, welfare recipients and youths, to find suitable employment. They also enable employers to find suitable workers via registration, testing and assessment, job development, referrals, vocational counseling, job search assistance, and screening.

Cost of Programs: $1,902,800
Number of Jobs Created: 7,282
Effects on Alaska Personal Income: $17.9 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Alaska Hire Preference Program(s)

Recent law provides for hiring preferences to be extended to residents on public-funded projects when certain economic and social conditions exist. The seafood industry and tourism industry programs consist of Job Service outreach and referral, advertising and promotion, and encouragement to hire Alaskans.

Cost of Programs: $536.2 thousand
Number of Jobs Created: 9,114 in seafood industry

Effects on Alaska Personal Income: $5.6 thousand from seafood industry
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87 - 12/87

Labor Market Information Program

This program offers a data base of economic and demographic information, including statistics on population, employment by industry or occupation, wage rates, costs of living, injury and illness rates, unemployment insurance, and resident hire.

Cost of Program: $2,687,600
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Unemployment Insurance

The unemployment insurance program pays temporary benefits to eligible claimants while they are seeking employment, thereby maintaining economic security for both claimants and local economies.

Cost of Program: $16,101,900
Number of Jobs Created: 134,754
Effects on Alaska Personal Income: $154,110,800
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

P. O. Box L
Juneau, AK 99811-0900
465-4600

Army National Guard Aviation Battalion

Start-up of this battalion will create 29 full-time and 109 part-time jobs, located primarily in Anchorage with positions in Nome, Bethel, Juneau and Kotzebue. Funding is primarily federal, with a $15.0 thousand general fund increment in the Governor's operating budget. Hiring is in process and will continue past the June 1, 1988 start-up date, until filled.

Cost of Program: $15 thousand GF, plus federal funding
Number of Jobs Created: 29 fulltime, 109 parttime from federal funding
Effects on Alaska Personal Income: $1.7 million
Geographic Area of Impact: mainly Anchorage
Commencement and Duration of Economic Effects: FY 89 and on

Army National Guard Support Battalion

This federally-funded guard unit, which was activated in September 1987 and is still recruiting, is located primarily in Wasilla with positions in Nome, Bethel, Juneau and Kotzebue.

Cost of Program: federal funding only
Number of Jobs Created: 35 fulltime, 78 parttime from federal funding
Effects on Alaska Personal Income: $1.8 million
Geographic Area of Impact: mainly Wasilla
Commencement and Duration of Economic Effects: FY 88 and on

Air National Guard Search and Rescue Squadron

The squadron will be located in Anchorage and is scheduled to be activated during FY 89. Federal capital projects to support this unit activation will include over $20 million for hangar construction and $3 million for aircraft parking ramp expansion, in FY 88 and FY 89, respectively.

Cost of Program: federal funding only
Number of Jobs Created: 170 fulltime, 55 parttime from federal funding
Effects on Alaska Personal Income: $5.9 - $7.7 million
Geographic Area of Impact: Anchorage
Commencement and Duration of Economic Effects: FY 89 and on

Air National Guard Refueling Squadron

The Air National Guard refueling squadron at Eielson AFB (Fairbanks/North Pole) was activated in December 1986. At present time this unit employs 130 persons full-time and 75 part-time. It is anticipated that that the refueling squadron will add another 25 fulltime and 170 parttime jobs.

Cost of Program: federal funding only
Number of Jobs Created: 155 fulltime, 245 parttime from federal funding
Effects on Alaska Personal Income: $6 million
Geographic Area of Impact: Fairbanks
Commencement and Duration of Economic Effects: FY 88 and on

Army Guard Facilities Maintenance

These operating budget items include general funds of $1 million teamed with $5,326,600 federal funds in support of the guard units described above and other guard units whose operations generate jobs for Alaskans.

Cost of Program: $1 million GF, $5,326,600 federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

DEPARTMENT OF NATURAL RESOURCES

400 Willoughby Avenue
Juneau, AK 99801-1796
465-2400

TAGS Gas Pipeline Monitoring

Program receipts of $500 thousand will be received from the proposed builder of a natural gas pipeline from the North Slope to Valdez. The proposed builder will benefit from expedited state permitting and monitoring responses through the use of these program receipts. During construction of the pipeline project, over 67,000 people could be employed and during the operating life of the project an estimated 550 jobs could provide over $200 million in royalty and tax payments to the state.

Cost of Program: $500 thousand (from program receipts)
Number of Jobs Created: 6,355/year construction-related, 550 operating
Geographic Area of Impact: Anchorage and pipeline corridor
Commencement and Duration of Economic Effects: FY 89 +/- 3 years

Timber Sale -- Susitna Valley, Tyonek

DRN reallocated operating funds to cover positions necessary to prepare for southcentral timber resource development.

Cost of Program: $73.6 thousand (est. revenue: $90 - $240 thousand)
Number of Jobs Created: est. 120 - 320 permanent
Effect on Alaska Personal Income: est. $3 - $8 million
Geographic Area of Impact: Susitna Valley, Tyonek
Commencement and Duration of Economic Impact: immediate

Oil & Gas Leasing

The state continues to offer prospective oil and gas areas for lease and plans five oil and gas sales during the next eighteen months. Revenue and economic impacts are unknown, since they depend entirely on the results of the lease sales and subsequent exploration. However, exploration of leased areas by private industry could result

in new oil and gas discoveries on state land and provide new revenues for the State and jobs for residents.

Coal Sale -- Matanuska Valley

Existing staff will be used to process a proposed coal lease sale near Sutton which could have positive economic effects on the local valley economy.

Cost of Program: within existing budget
Geographic Area of Impact: Matanuska Valley
Commencement and Duration of Economic Effects: Summer 1988

Coal Land Rehabilitation

Federal funds will be used in FY 88 and FY 89 to provide $140 thousand in private sector contracts for rehabilitating old abandoned coal leases in southcentral Alaska.

Cost of Program: $140 thousand federal funding
Geographic Area of Impact: southcentral Alaska
Commencement and Duration of Economic Effects: end of FY 88 through FY 89

Eagle River-Chugach State Park Ski Resort

Operating funds will be used to process bid proposals and develop contracts for planning, developing and operating a major ski resort near Anchorage. One developer estimates that resort development could create 600 construction jobs and 1,200 permanent jobs and have a substantial multiplier effect on the economy.

Cost of Program: within existing budget
Number of Jobs Created: est. 600 construction, 1,200 permanent
Geographic Area of Impact: Anchorage area
Commencement and Duration of Economic Effects: end of FY 88 and on

Hatcher Pass Ski Resort

Operating funds will be used to process bid proposals and develop contracts for a ski resort proposal for the Hatcher Pass area. Preliminary indications are that the project could create over 250 recreation-related private

sector jobs, with a multiplier effect of $11 million on the local economy.

Cost of Program: within existing budget
Number of Jobs Created: est. 250
Effects on Alaska Personal Income: $11 million
Geographic Area of Impact: southcentral Alaska
Commencement and Duration of Economic Effects: end of FY 88 and on

Alaska State Parks Program Receipts

Beginning in the summer of 1988, the Division of Parks and Outdoor Recreation will collect fees for the use of developed state park campsites. This program will generate approximately $628 thousand in program receipts that will be used to improve janitorial and maintenance services statewide. Many of these services will be provided by local private sector companies or individuals through contracts with the Division.

Cost of Program: $628.4 thousand from program receipts
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 88 and on

Alaska Grown Program

This promotion campaign will increase public awareness of the benefits of purchasing farm products grown in Alaska and will result in increased sales of Alaskan agricultural products. Estimates are that the $22 million yearly sales of Alaska grown meat, milk, vegetables, plants and other farm products will increase by $2.2 million per year as locally grown products are substituted for imports.

Cost of Program: $82.1 thousand ARLF, $25 thousand federal funding
Number of Jobs Created: est. 40
Effects on Alaska Personal Income: est. $5 million
Geographic Area of Impact: Railbelt, Northwest, Southwest Alaska
Commencement and Duration of Economic Effects: FY 88 and on

Agricultural Management Applied Research Grant

To enhance agricultural development, research projects identified by the industry will be funded through this $50 thousand grant program.

Cost of Program: $50 thousand
Commencement and Duration of Economic Effects: FY 89

Mt. McKinley Meats and Matanuska Maid Dairy

The management of these two properties has reverted to the Agricultural Revolving Loan Fund. The meat plant is operated by the Division of Corrections using prison labor to slaughter Alaska grown livestock. Plans to sell meat to wholesalers are being considered to allow Alaska produced meat to substitute for meat imports. The plant produces an estimated multiplier effect on the local economy of $1.8 million. The creamery employs 42 fulltime workers and has a support industry of 20 - 25 workers. The multiplier effect on the local economy should continue to be over $20 million per year.

Number of Jobs Created: 65
Effect on Alaska Personal Income: $21.8 million/year
Geographic Location of Impact: Railbelt
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF REVENUE

P.O. Box S
Juneau, AK 99811-0400
465-2300

Permanent Fund Program

Permanent Fund Dividends are paid from the earnings reserve account of the Permanent Fund. A total of $1.3 billion in Fund income has been paid out as dividends since this direct distribution program began in 1982.

Cost of Program: $424 million in 1988
Number of Jobs Created: est. 4,600
Effects on Alaska Personal Income: increases collective income $424 million ($443 million including prior year balance)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate and ongoing

AHFC Loan Administration

A dramatic increase in defaults has overloaded loan administration facilities. The resulting reduced quality of service has exacerbated the problem. AHFC has added staff to help homeowners deal with mortgage payment problems. In addition, the Homeowners Mortgage Workout Program provides temporary relief to homeowners meeting certain criteria by reducing their monthly mortgage payments.

These programs make a positive contribution to the economy by helping people continue to meet their obligations.

Cost of Program: $5,824,100 (AHFC funds)
Effects on Alaska Personal Income: better handling of loans reduces defaults; workout program aids homeowners
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate and ongoing

Shared Taxes

Amusement & gaming, aviation fuel, electric & telephone, liquor and fisheries distribution taxes are shared with 12 boroughs and more than 140 communities statewide. These taxes are used for a variety of purposes,

ranging from reducing local taxes to providing general government services.

Cost of Program: $10,786,200
Effects on Alaska Personal Income: reduces local taxes, helps local communities provide basic services
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

P.O. Box Z
Juneau, AK 99811-2500
465-3900

Alaska - Specific Destination Program

This program, run by the International Airport System marketing division, is designed to attract more Japanese tourists to Alaska. It is a joint venture, combining state and private sector funds.

Cost of Program: $200 thousand (IARF), $100 thousand private sector
Impact on Alaska Personal Income: Attracting more Japanese tourists to Alaska will have a very positive impact on income. The average Japanese visitor will spend $2,000.
Geographic Area of Impact: mainly Anchorage, Fairbanks, Juneau, and Kenai
Commencement and Duration of Economic Effects: Spring 1988 - FY 89

Promotion of Alaska for International/National Parcel Delivery Operations

The International Airport System marketing division is promoting Alaska's advantages, mainly its central location, for international parcel delivery firms. The effort has resulted in discussions with one firm, Federal Express, regarding construction of a facility at the Anchorage International Airport.

Cost of Program: $12 - $15 thousand for marketing AIDEA to supply financing for construction
Number of Jobs Created: 20 - 30 initially; 200 - 300 over 3 year period
Geographic Area of Impact: Anchorage, Fairbanks
Commencement and Duration of Economic Effects: spring 1988 - FY 89

Elderhostel Promotion

This program is a cooperative effort between the Alaska Marine Highway and Elderhostel whereby the Marine Highway provides accomodations and passage at a reduced price (approximately 25% reduced), and Elderhostel provides staffing to accompany groups of 50, as well as publicity and administrative costs. Eight trips are planned for FY 88.

Cost of Program: $35 thousand (est. revenue: $130 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: ongoing

Promotion of Columbia Glacier

The M/V Bartlett and the M/V Columbia begin their summer schedules visiting the Columbia Glacier in May. The first few trips normally sail with less than full capacity loads. Radio spots in the Anchorage and Fairbanks areas have been successful in boosting ridership.

Cost of Program: $5 thousand (est. revenue: $10 thousand)
Geographic Area of Impact: Anchorage area
Commencement and Duration of Economic Effects: Spring 1988 - early FY 89

Promotion of Prince William Sound

The Marine Highway System is participating with Whittier, Cordova and Valdez in efforts to promote travel, especially by ferry, to the area. At this point, efforts have been limited to meeting with the members to discuss Marine Highway schedules and tariffs, Alaska Railroad operations, and various promotion strategies.

Cost of Program: $3 thousand (est. revenue: $1 thousand)
Geographic Area of Impact: Prince William Sound
Commencement and Duration of Economic Effects: Starting 1/88

Travel Agents Luncheon Promotion

This is a cooperative effort with Alaska Airlines, the Port of Seattle and private enterprise. Eight luncheons for travel agents will be hosted by the Alaska Marine Highway onboard the Seattle operating ferry at Pier 48. Roughly 60 agents for each luncheon will be transported by Alaska Airlines to the vessel, where they will receive lunch, a tour of the vessel, information about the Marine Highway and how to make reservations, etc.

Cost of Program: $18 thousand (est. revenue: $30 thousand)
Commencement and Duration of Economic Effects: Ongoing

Travel Agents Familiarization Program

Ten familiarization trips are planned for roughly 25 agents per trip. These trips are a cooperative effort between the

Alaska Marine Highway, Alaska Airlines, the private sector and the Port of Seattle. The Marine Highway provides accomodations (one-way) during winter months when cabins have a low occupancy rate. A Marine Highway representative accompanies the group for a portion of the voyage and provides in-depth information about the system.

Cost of Program: $20 thousand (est. revenue: $50 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: Starting 1/88

Travel Shows

The Marine Highway System will be sending a representative to attend three travel shows during FY 88. This will provide an opportunity to furnish information, schedules, tariffs, etc., to potential customers at a very nominal cost, as the representative will be attending in conjunction with the Division of Tourism, which will furnish the space.

Cost of Program: $5 thousand (est. revenue: $20 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: shows in FY 88 will produce travellers in FY 88 and FY 89

UNIVERSITY OF ALASKA

3890 University Lake Drive
Anchorage, AK 99508
786-4620

Alaska Center for International Business

The Anchorage-based Alaska Center for International Business was created during the 1987 legislative session. Its purpose is to conduct research on market information and market strategies relating to trade by businesses in the state with foreign nations, and to encourage an understanding of culture, language, political and economic systems, social and legal systems, and other aspects of foreign countries, particularly in Asia.

Cost of Program: $2.5 million GF in FY 88
Geographic Area of Impact: mainly Anchorage
Commencement and Duration of Economic Effects: FY 88 and on

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

:khc1/30

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W Benson Boulevard • PO Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern, and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves, individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination. the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet. income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. **With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.**

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls. Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. **Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.**

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement. Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

F.D.I.C. FINDS WAYS TO SELL AILING ASSETS
New York Times Article--2/22/88
By Nathanial C. Nash

WASHINGTON, Feb 21 -- Federal regulators are employing novel ways to sell billions of dollars in troubled banking assets, including the sale of so-called dirty banks.

The Government has decided that if it can sell the entire operation of a failed bank--not just the healthy "clean" loans and other assets but also the delinquent loans and foreclosed properties--it can save the time, resources and headaches needed to liquidate the bad assets. In almost every sale, the Government actually pays investors to take these sick institutions off its hands.

"We prefer to call these whole-bank transactions," said L. William Seidman, chairman of the Federal Deposit Insurance Corporation, which insures deposits at the nation's commercial and savings banks.

A Savior for F.D.I.C.

No matter what the terminology, Mr. Seidman said, the savings from selling 19 failed banks last year, plus other innovative methods of disposing of bad assets, kept the F.D.I.C. from recording the first operating loss in its history.

The quick disposal of troubled assets is a departure for an agency that once tended to hold on to them in hopes that their value would increase in better times. Though many bankers applaud the new approach, some are concerned that the F.D.I.C. may be "dumping" these assets on the market. Some bankers worry that if the F.D.I.C. liquidates its loans at fire-sale prices, it will depress the value of troubled loans in other banks' portfolios. But F.D.I.C. officials reject the dumping charge and say that their policy is to sell the loans only at current market value.

As bank failures have soared from 10 in 1980 to almost 200 last year, the F.D.I.C. whose primary function is that of an insurance fund and regulator of small banks, has developed a gigantic new business--liquidating bad loans and selling foreclosed real estate and other assets inherited from the failed banks.

In a typical bank failure, the F.D.I.C. takes over the bank, removes management and eliminates stockholders equity. Once in control, it removes all the bad loans, which generally

caused the failure, and sells the remaining "clean bank" with its healthy loans and deposits, to the highest bidder.

The agency then must begin to liquidate the bad loans and other assets, one by one. This means trying to foreclose on properties, collect from bankrupt businesses and resposses automobiles. Not only does the process require thousands of Federal employees, it generates hundreds of lawsuits.

In the end, the agency often collects only 30 to 35 cents on the dollar.

Troubled Assets Soar

So high has the bank failure rate been that the F.D.I.C.'s assets under liquidation soared from $2.2 billion in 1982 to more than $11 billion last year, making the agency one of the largest liquidators in the country.

Such levels have pushed the Government to develop other techniques for selling large amounts of bad assets. Besides beginning the sale of "dirty" banks, Mr. Seidman instituted a bulk sale program, in which an investor can buy millions of dollars of loans at a time.

This was perhaps best illustrated in a sale this month by the F.D.I.C of the entire portfolio of its office in St. Joseph, Mo. From 21 bank failures in the state, the F.D.I.C. had amassed a portfolio of more than 2,500 loans and other assets with a book value of $70 million. The buyer, Diversified Financial Planners, Inc. of Fort Wayne, Ind., agreed to pay $21.1 million.

The F.D.I.C. is also looking for buyers for the entire portfolio of its Omaha office, which has 4,700 assets with a book value of $128 million.

On a much grander scale, the agency also announced this month that it was preparing the bulk sale of some $1.8 billion in bad loans and assets it inherited from its 1984 rescue of the Continental Illinois National Bank and Trust Company. The F.D.I.C. said it was breaking the portfolios into six loan groups--energy, international, maritime, real estate, commercial and personal--and would sell each separately. It would also entertain bids for the entire portfolio.

Something Instead of Nothing

While in one sense the sale of bulk-loan packages is meant to reduce the agency's liquidation operations, Mr. Seidman and bank experts noted that there was a much larger reason.

Because bad loans under liquidation often sit for years in court battles and other delays, the F.D.I.C. earns nothing from them. In fact, they represent a cash drain.

By receiving even a small amount of cash from the bulk-loan sale, the agency can put the money into Government securities to begin earning interest, Mr. Seidman said.

"If you've got cash, you're in business," said Mr. Seidman, a former accountant. "I keep telling my people that one of the criteria in deciding any transaction for this fund is whether it brings in cash."

Indeed, Mr. Seidman estimated that if the agency had not embarked on a bulk sales and dirty bank program, the assets under liquidation would have soared and the agency's current cash reserve of $16 billion, which is the base of its financial strength, could have shrunk to around $10 billion.

The Need for Cash

"There is always the concern that if you suck up too much cash, it reduces your ability to handle bank failures," said William M. Isaac, former chairman of the F.D.I.C. and now head of the Secura Group, a financial consulting firm. "You also run the risk of a public confidence crisis issue if your cash levels get too low."

Bankers also welcome the program because it allows troubled borrowers to continue their relationship with a bank instead of the Government. "When the F.D.I.C. picks up a bad loan, it has to liquidate it," an official of the American Bankers Association said. "It cannot extend additional credit. Borrowers have no way to refinance their loan. They may lose a long-term depository relationship."

In other words, at the time of the borrower's greatest stress, along comes the Government with a mandate to liquidate, the official said.

Though the F.D.I.C. cannot fund a buyer for every dirty bank it has already found some satisfied customers.

Philip Sandquist, a Montana banker, decided to buy a dirty bank last year--the Deer Lodge Bank and Trust Company in Deer Lodge, Mont.

The $16.5 million bank had become insolvent, in good part, regulators said, because of poor management. Under the deal he struck with the F.D.I.C. Mr. Sandquist put up a little more than $1 million and the F.D.I.C. injected almost $2 million.

"But most of those assets--almost $14 million--were really good paying assets," Mr. Sandquist said. Four days after he took over the bank, he said it was earning a profit. "After eight months, we had earned $133,000," he said.

Mr. Sandquist noted that in the typical clean-bank transaction, in which the banker receives only the insured deposits but few if any loans offsetting those deposits, "it takes a long time to find borrowers and other places to put those funds to start earning money on them," he said.

With an F.D.I.C. dirty bank, "you can buy assets for 50 to 75 cents on the dollar and most of them are already earning money," he said, referring to the interest payments on the loans.

Steven A. Seilig, associate director in the F.D.I.C.'s liquidation division added that disposing of assets as soon as possible had become the new goal in an agency that once might have wanted to hold on to foreclosed real estate or loans, hoping that the market would soon turn around and the government would make a premium on the assets.

"While I might think that a piece of property is going to go up in value, it ain't necessarily so," he said. "Look at where oil and gas prices were in 1954 and where they are today. If I have $100 tied up in these loans, I am not earning any money, I have holding costs and I run the risk that their value will go down even more . If I sell them and put $100 in the bank, I know exactly how much I am earning on it."

March 4, 1988

Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504
(907) 337-5116

Honorable Arliss Sturgulewski
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

RE: House Bill 432 entitled "an act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases".

Dear Arliss:

The Residential Interest Group for Housing Trades (RIGHT) is an organization comprised of Alaskan residents who presently own either single family or zero-lot line homes, condominiums or mobile homes (homeowners) financed through the Alaska Housing Finance Corporation (AHFC). It is the goal of RIGHT to develop and establish a program though which qualified homeowners may exchange their current residences and mortgages for residences previously foreclosed upon by the AHFC.

Through our efforts, a bill has been introduced in the House (HB 432), by Representative Donley, to provide for such trades by the AHFC. In an effort to assist the legislature in establishing a trade program, RIGHT has prepared a proposal for the development of a trade program, a copy of which is enclosed for your information and review. This document is being submitted to every member of the 15th Alaska Legislature, every mortgage insurer who insures mortgages of the Alaska Housing Finance Corporation in hopes of bringing all necessary parties together to establish a trade program.

After reviewing the enclosed proposal, please feel free to contact us regarding any comments you may have. Any suggestions you may offer would be greatly appreciated. Thank you.

Very truly yours,

David P. Moore
Board Member,
Residential Interest Group for
Housing Trades.

DPM/ws

March 2, 1988
Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504

Rep. David Donley
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Re: House Bill 432

Dear Representative Donley:

The Residential Interest Group for Housing Trades (RIGHT) would like to take this opportunity to thank you for sponsoring House Bill 432. As you know, in its current form the bill does not provide a procedural framework through which trades may be realized. It is our understanding that the House Labor and Commerce Committee is currently considering the bill in an attempt to develop such a framework.

In order to assist you in your endeavor, RIGHT has analyzed and developed the following proposal for your consideration. We recognize that we are but one of the three parties involved and therefore urge you to meet with the other participants, Alaska Housing Finance Corporation (AHFC) and the mortgage insurers, in order to obtain successful passage of this legislation.

The downturn in Alaska's economy has caused thousands of residential foreclosures in this state. In 1987 AHFC foreclosures alone increased from the 1986 record of nearly 2,000 to over 3,700 representing an increase of 102%. This trend has continued unabated since 1984. See AHFC foreclosure statistics 1984-1987. This foreclosure rate may be attributed to both economic and non-economic factors.

Initially, many homeowners either lost their jobs or experienced some other decrease in earnings which left them unable to meet their financial obligations. Consequently, many homeowners defaulted on their mortgages. Foreclosures skyrocketed. Today, homeowners continue to default and face ultimate foreclosure due solely to economic reasons.

These initial "economic" foreclosures spawned a wave of "non-economic" foreclosures. As foreclosed residences were resold at depressed market values, homeowners began experiencing a continual decline in their property values to present levels substantially below their mortgage balances. Condominium, zero-lot line and mobile homeowners have been the groups most affected by the declining values. Faced with increasing negative equities, many homeowners have chosen foreclosure to avoid inevitable future losses. Although able to meet their financial obligations this group of homeowners default for "non-economic" reasons.

Nevertheless, many homeowners have not defaulted. Many are not only able to meet their current financial needs but are actually able to qualify for higher priced homes and mortgages. Many families have outgrown their homes. They seek to improve their standard of living but are prevented from doing so by their inability to sell their current residences which is necessary to purchase better housing. Given the likelihood that these homeowners will never again enjoy a positive equity position, there is nothing but a sense of ethics and moral obligation tying them to their loans. Their negative equities and inability to sell even at a loss leaves them not only frustrated and dissatisfied, but with little incentive to continue paying their mortgages. Currently, default is the only option available to improve their situation.

On the other hand, many people who have experienced a decrease in earnings are depleting their cash reserves in an effort to remain current on their mortgages. In many of these cases default will eventually occur. Although there are programs available to assist these homeowners, they provide only temporary relief at best. Moreover, these programs do not improve the homeowners equity position but worsen it thereby creating a yet greater incentive to default. As such, they merely delay the inevitable.

Each foreclosure increases the supply of housing available in the market thereby further decreasing market value. As values decline, more defaults occur and the cycle repeats. As a result, many lenders and mortgage insurers have unwittingly become real estate barons. Their assets have been converted from predominantly cash and securities to real property making them less liquid and less able to meet their cash needs. Additional foreclosures will only further deteriorate their financial positions.

The solution is obvious: decrease the current rate of foreclosures. This objective may be achieved in one of two ways:

1. The market can correct itself naturally without structured intervention by the private or public sectors. However, if current trends continue unchecked, there is little doubt that the market will not be corrected for many years. During this period, AHFC and its insurers will be forced to continue to acquire and maintain foreclosed residential property further depleting their cash reserves.

2. The market can be corrected through the development and implementation of a plan to reverse the trend in foreclosures. It is the objective of the Residential Interest Group for Housing Trades (RIGHT) to assist in developing such a program by allowing homeowners to trade their existing AHFC loans for residences previously foreclosed upon by the AHFC, thus providing more suitable and/or affordable housing for Alaskan homeowners. To develop a solution, we must first analyze the problem.

Whenever a foreclosure occurs three parties are directly affected:

1. the homeowner;
2. AHFC;
3. the mortgage insurance company.

The cost to each party is equal to 100% of its maximum exposure. The homeowners lose their residence and their credit is destroyed. AHFC loses future revenue and earnings in the form of mortgage payments and interest. Since AHFC is nearly 100% insured (see 1987 AHFC Annual Report, p. 4), it is the least impacted by foreclosure. Nevertheless, AHFC suffers its greatest loss with foreclosure.

It is the mortgage insurer that bears the greatest loss in terms of actual dollars. The insurer's policy limits are exceeded because of the low resale price. Accordingly, the insurer pays 100% of its maximum exposure on the property and now must also pay for upkeep of the residence if it obtains title. If not, resale and upkeep costs fall upon AHFC. In short, everyone loses everything in a foreclosure situation.

RIGHT envisions a situation wherein everyone wins a little. A typical trade would occur as follows:

1. The homeowner selects a residence for purchase from AHFC inventory. He then buys down his existing mortgage by paying to AHFC an amount equal to a percentage of the negative equity thus lowering the balance of that AHFC loan. He would then purchase the new home at its current market price financed through AHFC at 100% of its value;

2. The mortgage insurer would also buy down the mortgage by paying to AHFC an amount equal to a percentage of the maximum amount of its exposure had a forclosure occurred. In exchange, AHFC would tender a policy release on that loan;

3. AHFC would then own the original property and be at liberty to dispose of it in a variety of ways. It could either sell the property or rent it as low income housing thus replacing the current blighted low income housing.

By adopting such a program everyone would benefit. The homeowner would be able to obtain, for a price, a better or more affordable home. His incentive to default produced by his current negative equity or financial distress would be eliminated.

The insurer has cut its losses from 100% to whatever percentage it agrees to pay for AHFC's policy release. Assuming the property purchased was from the insurer's inventory, the insurer has now sold to the homeowner one of its properties previously foreclosed upon. Since it has acquired no additional property in the trade, it has decreased its inventory and associated costs by one. Finally, trades will substantially decrease the number of foreclosures thus decreasing the potential for future losses.

AHFC directly benefits by the influx of cash from the homeowner and the insurer in "buying down" the mortgage. Moreover, such a program benefits AHFC by substantially decreasing future foreclosures. Although, arguably, AHFC may end up with less marketable property, this same result would occur were foreclosures to continue at current levels. The difference, however, is that in a trade situation AHFC receives cash at the time of repossession. In a foreclosure, AHFC receives nothing absent judgment and successful execution. Moreover, AHFC will be taking back a loan while at the same time financing a new one whenever a trade occurs thereby maintaining a steady cash flow which is not present in a foreclosure situation.

Although AHFC will accumulate an inventory of less desirable housing in the form of condominiums and mobile homes when low cost property is traded for higher priced residences, title to these dwellings will vest in one owner - AHFC. As a governmental agency, ultimate ownership by AHFC is more desireable than ownership by private mortgage insurers which usually occurs in a foreclosure. Unlike private enterprise, the government, through AHFC, is in a better position and has greater incentive to dispose of the property in such a way as will benefit the public good. Accordingly, the trade program could be utilized in conjunction with a program developed to dispose of the lower cost housing either through resale or rental as public housing or through demolition and removal (mobile homes) for resale in a more viable market.

Two factors must be kept in mind in structuring this program:

1. Costs - closing costs and realtor fees must be streamlined and reduced. For example, realtor commissions could be lowered from 6% through a competitive bidding process. Bank fees could be eliminated by direct financing through AHFC.

2. Homeowner costs - to make the program viable, the buy down payment required must be affordable. Further, should a party be unable to produce all of the buy down payment, alternative financing must be available. Perhaps a second deed of trust equal to the unpaid balance of the buy down payment could be taken out on the new home purchased through AHFC. Homeowners trading down could pay zero down, with their buy down cost transferred to the new loan.

In conclusion, RIGHT recognizes that the cost of improving the residential market should not be borne by any one group. Under current conditions the burden is placed solely upon the individual homeowner. As the foreclosure rate indicates, the homeowner is unwilling to accept this burden and it is ultimately AHFC and the mortgage insurers who must bear the loss. RIGHT offers a program through which all parties assume a share of the costs in exchange for a lessening of their burden.

Contrary to some beliefs, legislation is necessary to enable AHFC to effectuate a trade as no statute or regulation exits authorizing such activity by AHFC. In order to establish a trade program, the legislature must take steps

to obtain the attendance of all necessary parties at the bargaining table. This can best be achieved by the legislative appointment of a panel consisting of realtors, financial experts and representatives from AHFC, the mortgage insurance companies and the homeowners. We urge you to appoint a panel to review and develop a plan consistent with this proposal. Immediate action is necessary in order to obtain passage of this important piece of legislation during this session.

Again, thank you for your efforts in this matter. If you have any questions or wish to discuss this proposal in further detail, please do not hesitate to contact us.

Very truly yours,

Trena L. Heikes
Co-chairman,
Residential Interest Group for
Housing Trades

Michael D. Hinshaw

Michael Hinshaw
Co-chairman,
Residential Interest Group for
Housing Trades

A ✓
ROD

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Alaska Permanent Fund Corporation
P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047 Telecopy (907) 586-2057

April 5, 1988

Thomas Snelling
13441 Glen Alps Road
Anchorage, AK 99516

Dear Mr. Snelling:

Thank you for your letter dated March 21, 1988, in which you support the Hallwood Group's proposal as advanced by Mr. Anthony Gumbiner.

Attached please find a copy of a white paper I prepared on the subject and legislation drawn to accommodate it. The Hallwood proposal is the vehicle which would execute the plan.

You should be aware of a few problem items. First, the original plan called for a maximum of $15 million of State funds; Hallwood wants more and that may kill the whole thing. Second, Hallwood is the only "player" to sign up in support of the concept. Unless FDIC and another agency join the fold, I do not believe the legislation will pass. It must benefit at least three entities, not just Hallwood.

Finally, be advised that investment in the trust -- and the portfolio in it -- is not necessarily institutional quality. It does not appear to meet the Permanent Fund's low risk criteria as it pertains to cash-on-cash return, internal rate of return and substantially leased property. Nonetheless, I will continue to work with legislators, Mr. Gumbiner, other entity representatives and potential investors in these matters.

Thank you for your interest and comments.

Sincerely,

David A. Rose
Executive Director

Enclosures:
White Paper
SB 408/409 by Kelly and Sturgulewski
HB 457/458 by Pettyjohn
DAR/mm

RECEIVED
APR - 4 1988
ALASKA
PERMANENT FUND CORPORATION

March 21, 1988

Mr. Dave Rose, Executive Director
Alaska Permanent Fund
Box SB
Juneau, Alaska 99811

Dear Mr. Rose:

I believe that the Gumbiner Real Estate Trust Proposal should be implemented immediately. It is the correct solution for a terrible problem. Now is the right time.

I believe it will stabilize the Alaskan Real Estate Market, end the precipitous plunge in real estate values, mark the beginning of the recovery, rekindle optimism and individual investor interest. In short, it will save us all.

I believe in Alaska's future. As a small investor, I would eagerly participate.

Please use your considerable power and influence to make sure that this plan is implemented in the shortest period possible.

Sincerely,

Thomas Snelling

Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

March 21, 1988

Mr. Anthony Gumbiner, Chairman
Financial Institutions Group
The Hallwood Group Inc.
767 3rd Avenue
New York, New York 10017

Dear Mr. Gumbiner:

It makes sense. Your Liquidation Trust Proposal for Alaskan Real Estate should be supported by all Alaskans and implemented immediately.

The units should be sized for both individual and institutional participation with the Alaska Permanent Fund as a participating investor.

Please let me know how I can best support the implementation of this very important program.

Sincerely,

Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

cc Mr. Dave Rose; Alaska Permanent Fund
Mr. Steve Cooper; Governor, State of Alaska
Ms. Jan Faiks; President, Alaska State Senate
Mr. Tom Fink; Anchorage Municipal Mayor
Mr. Tony Smith; Chairman, Alaska Housing Finance Corporation
Mr. Tom Ruth; Federal Deposit Insurance Corporation
Mr. Ted Stevens; U. S. Senator for Alaska
Mr. Frank Murkowski; U. S. Senator for Alaska
Mr. Don Young, U. S. Congressman for Alaska

Business

Investors bank on Alaska recovery

By Yereth Rosen
Times Writer

Anthony Gumbiner and Jim Cairnes are bullish on Alaska.

"From an international investor's point of view, you've got to be interested in Alaska," Gumbiner said. "We're coming into a society that is at its lowest point." But the state is rich in resources and potential, he said.



Jim Cairnes
... expects long-term growth

"It's the last frontier in the United States," Cairnes added. "There's an awful lot of long-term growth to take place."

Gumbiner, chairman of The Hallwood Group Inc., and Cairnes, a former Hallwood official who left the company to become chairman of Alliance Bancorporation, have a stake in an Alaska economic recovery.

Alliance is the bank formed when two then-failing banks — United Bank of Alaska and Alaska Mutual Bank — merged late last year. Hallwood is the New York-and London-based merchant banking firm that contributed $65 million to get Alliance on its feet. The firm owns about 85 percent of Alliance.

Like other financial institutions, Alliance is saddled with enormous inventories of repossessed properties. When the merger occurred, the new bank took on all of UBA's and Mutual's $300 million in bad real estate loans.

On Thursday Cairnes, who works out of Seattle, and Gumbiner, who works out of New York, toured some of the 1,500 properties repossessed by Alliance.

Something of a specialist in rescue financing, Hallwood was given the option of turning Alliance over entirely to the FDIC if, after 18 months, the venture proved unsatisfactory.

But Gumbiner and Cairnes said Thursday they doubt that will happen because they expect the Alaska economy to rebound.

Still, there is a problem they see with the economy's prospects.

"There are so many people — including ourselves — that have so much real estate that, if it isn't properly managed, we could see the recovery being put aside," Cairnes said.

At the first glimmer of a market demand for real estate, as Gumbiner and Cairnes explain it, the institutions holding vast inventories will gang up and pounce on the few available buyers just as a gang of polyester-clad used-car salesmen will pounce on the first customer who wanders onto a sales lot. In doing so, the two argue, the institutions will further depress real estate values and make it even more difficult for the average homeowner to sell. That, in turn, would create greater incen-

See Investors, page D-10



Anthony Gumbiner
... proposes real estate rescue plan

Investors: Asking state for $15 million investment

Continued from page D-7

tive for the average homeowner to walk away from a mortgage.

To prevent that from happening, Hallwood and Alliance are proposing a rescue program that would put institutionally owned real estate into a liquidation trust.

Investors from around the world would buy units of the trust, which would be the equivalent of long-term commodity investments. At the end of 20 or 30 years, the length of mortgages for properties in the trust, investors would earn a return on their units. The units would be similar to zero-coupon bonds in that there would be no cash payments before maturity; however, under the plan, any investor who wants to cash out at any time would be able to do so.

Investors would be speculating on the Alaska economy and currency exchange, according to the plan.

Gumbiner and Cairnes said all that they need to go forward with the plan is the participation of other institutions that hold vast inventories of repossessed real estate — like the Alaska Housing Finance Corp., the FDIC and other banks — and some working capital from the State of Alaska.

They're asking for $15 million from the state, an "investment" they said would perhaps be repeated for two more years.

In Hallwood's favor is its past experience with similar real-estate trusts. In this area Hallwood is perhaps best known for The Twenty Seven Trust, which it formed in 1984 to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust.

Also in Hallwood's favor, Gumbiner and Cairnes said, is the support of Tony Smith, the state's commissioner of commerce and economic development and chairman of AHFC's board.

Gumbiner said letting the market take its own tumultuous course without intervention would be risky. "It's a very serious social problem that state government well ought to do something about."

Despite the dangers they see, Gumbiner and Cairnes said they're optimistic about their financial prospects in Alaska.

"We hope people will remember us for coming in when times were bad," Gumbiner said. "A lot of people will come in when times are good."

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to fund disposal of substandard publicly owned housing; and providing for an effective date."

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

* Section 1. DISPOSAL OF PUBLICLY OWNED SUBSTANDARD HOUSING. Consistent with the best interests of the state, the Alaska Housing Finance Corporation may use not to exceed $20,000,000 in unrestricted funds available to it for the purpose of making grants to state agencies and municipalities of the state for the disposal of substandard housing owned by the state or a municipality of the state. The corporation shall take a security interest in land occupied by substandard housing disposed of under this section to recover funds granted under this section. The security interest shall bear interest.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W Benson Boulevard • PO Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few

office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases, the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirement of the Procedures Agreement will assure the Beneficiary Institutions

that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets.d Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will

first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and, as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Assets.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to appropriate and subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

We anticipate that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, for at least one year. At the end of the year if the Trust requires further funding from the State, we shall report our then position and request a further sum of up to $15 million for the next current year in the form of a loan from the State to be secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make

settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a cash flow projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and

improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States, with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's

equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan

real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rates as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust, each of the Beneficiary Institutions shall be entitled to nominate a committee member to

the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Fees to the Trustees

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance. In effect, Hallwood will be receiving an indirect fee in that Alliance staff costs in its workout department will be partially reduced by the formation of the Trust.

In the event that Hallwood exercises its put to the FDIC and is thereafter no longer a major shareholder of Alliance, Hallwood's services as manager and Trustee will still be available to the Trust on a fee basis should Beneficiary Institutions request Hallwood to continue its Trusteeship.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

March 17, 1988

The Hallwood Group Incorporated
767 Third Avenue
New York, NY 10017
Tel: 212-319-2360

Bruce B. Kendall Sr.

KENDALL FAMILY ENTERPRISES

333 CONCRETE STREET

ANCHORAGE, ALASKA 99501

March 24, 1988

Representative Kay Brown
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Kay:

I see by the newsletters and public press that there are several bills before the legislature to liberalize the states two major lenders, AHFC and AIDA, so I will relate to you what I know to be factual.

(1) Never pass a law to fit a personality because that person or board member may not always be in charge. I have seen legislatures pass laws to offset incompetants by making the operational rules so conservative as to be useless, and also to liberalize a law because of great confidence in a person or agency. Both are incorrect actions.

(2) The above agencies have many controls already in place by the market place as to their source of funds, especially AHFC. I have no first-hand knowledge of their activities, so no comment as to proposed laws.

(3) I have had personal experience with AIDA, because they inherited the old tourism loan portfolio when the legislature created AIDA, which was the proper thing to do. My tourism loans were dated 1978, 1974, and I still own these properties. In all those years everything was per schedule and to this day I have a net cash flow on these two properties. However, I have other properities as well and one of my properties got caught in the oil price crash and had a dangerous reversal in revenues Consequently, we had a lot of accounting and computer runs, etc. The conclusion was that if all five mortgage holders of properties would cooperate by pooling the revenues and expenses of all properties, a two-year program of this cooperative act "could" bring all properties current and avoid any forced sales of property on a depressed market.

The meeting was held by me, my CPA and three mortgage holders and my home bank. National Bank of Alaska, guaranteed a line of operational credit to offset seasonal revenue fluctuations and the agreement is performing so far as planned.

The point I'm making here is this, my long-term Alaska business experience (48 years) and the age and source of those funds was a direct appropration by the legislature and not bond sales, which made it possible for AIDA to make a business, social judgement that was not needed in regards to their two old tourism loans, but the judgement was to be cooperative with other lenders to avoid forced sale of one of my principle properties. Bert Wagonon and the board made a decision that could be viewed under

present rules of their agency as a close call because my old tourism loans were co-mingled with the bond sales funds.

My second point is that when the government gets into the loan business and the rules are that a private bank must originate the loan and participate in a percentage of the loans funding, then the government agency should have the same rules to rescue troubled loans as does the private lender. Reason is that the private lender has numerous legal work outs available to them by law, and rule. In the private sector, once a mortgage is a classified loan, that private lender legally can just about make any arrangemens that will collect the bill due. Whereas, AIDA is the largest lender, by the numbers involved and it doesn't have the same latitudes that the orginating bank has available so that brings on more losses, fore closures and stress than is practical or necessary. So it comes down to this, if the state wants to become a banker then the legislature must make the same identical rules available to that state agency as the private lender has available. If you don't equalize the rules, then you have multiplied the stress on that agency and the private market place, by making the cooperation between private and government lenders impossible. Here is why, AIDA funds or bonds that have guaranteed earning percentages at the time of sales, that fit market conditions so these percentages vary. Therefore, it follows that to refinance or mutually agree to a workout an agreement, a distressed borrower becomes an administrative impossibility unless the legislature gives the AIDA agency access to state funds to equalize the disparities in bond holders earnings, which by law must be constant. In this manner you will put AIDA, a state agency, equal with the private lenders' methods of rescue or work out equal plans to where each board, both private and state, can then make business judgements without fear of reprisal by some judicial actions of the parties involved or to appear illegal to any examination of the record.

Kay, it all boils down to the fact that there ain't no free lunch. The state legislature made the state a banker in the first place, so now it would be unfair to pick up your marbles and run away. That leaves private lenders and honest borroweres in a lurch. So by all rules of honesty and fair play, the legislature should equalize state, public and private lenders or the state will create a bigger mess than we have presently.

Sincerely,

Bruce Kendall

Bruce Kendall, Sr.

cc: Representative Johnny Ellis
Representative Pat Pourchot
Senator Joe Josephson
Representative Al Adams
Senator Rick Halford

MT. McKINLEY MUTUAL SAVINGS BANK
TELEPHONE (907) 452-1751 P.O. BOX 73880 531 THIRD AVENUE FAIRBANKS, ALASKA 99707

COPY

March 24, 1988

Willis Kirkpatrick
Director
State of Alaska
Department of Commerce and
Economic Development
Division of Banking, Securities
and Corporations
P.O. Box D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

It has come to our attention that three banks in our state, Alaska State Bank, Alaska Continental Bank and Home Savings Bank, have hired lobbyists to push their proposed bill called "The Economic Stabilization Act of 1988" through the legislature.

The Anchorage Daily News and the Fairbanks Daily News Miner published identical articles concerning the banks proposed legislation. The newspaper articles stated that, according to Alaska Division of Banking and Securities, three banks were behind the bill plus Denali State Bank and Mt. McKinley Mutual Savings Bank.

We believe it is extremely important that Mt. McKinley Mutual Savings Bank's position concerning the proposed bill be made perfectly clear. The management of the bank did not participate in the preparation of this bill, nor have we in any way expressed our endorsement of proposed legislation to the author of the bill, to any State agency, to any State officials, or to the news media.

Mt. McKinley Mutual Savings Bank's basic premise is to expand our abilities to adapt to new market circumstances, to a changing economic environment, and to new regulatory circumstances. The Alaska economic climate has become harsher and less predictable, which is going to make the banking business more difficult to manage.

MT. McKINLEY MUTUAL SAVINGS BANK
TELEPHONE (907) 452-1751 P.O. BOX 73880 531 THIRD AVENUE FAIRBANKS, ALASKA 99707

There is no place to hide in this economic environment. Consequently, tough decisions have to be made by the regulators concerning insolvent banks.

Sincerely,

William K. Simon
President

WKS:lcl

cc: Senator Bettye Fahrenkamp
Senator Ken Fanning
Representative Mark Boyer
Representative Kay Brown

COPY

3-20-88

To: Rep. Kay Brown
Chairperson
Housing and Banking
Alaska Legislature
Juneau, AK 99801

Dear Ms. Brown -

We wish to be on record as being against this proposal. We had assumed Alaska State Bank was our local mortgage holder and we would therefore be able to deal with an Alaskan local bank. Not so.

Very truly yours,

Charles and Mary Wilson
1823 Beaver Place
Anchorage, AK 99504

Banks make a plea

But don't call it a bailout, they say

By STAN JONES
Daily News reporter

Three money-losing Alaska banks are asking the legislature to boost their industry with up to $25 million in state cash, but they say it's to help their customers, not themselves.

Alaska Statebank, Alaska Continental Bank and Home Savings Bank have hired three heavyweight lobbyists at a cost of $75,000 to try to get their proposal, called "The Economic Stabilization Act of 1988," through the legislature.

Despite its sweeping title, the bill deals only with banks. It would have the state invest in small, state-chartered institutions, using money from the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, the Railbelt Energy Fund "or any other state financing entity designated by the Commissioner of Commerce and Economic Development."

The bill would limit the program to state-chartered banks with assets of less than $150 million. According to a report from the Alaska Divi-

"My inclination is to be against it, but we haven't seen anything specific," said Rep. Kay Brown, D-Anchorage, who co-chairs a housing and banking subcommittee. "It seems to me that if we're talking about people who basically made poor business judgments, that is just something that has to be lived with. We can't, obviously, bail out everybody who made a poor business judgment."

"Is it the state's role to pick the winners and losers?" she said.

3-20-88

← Alaska Statebank sold our home mortgage promptly to Manufacturer's Hanover Bank, a Michigan outfit, without asking our concurrence.

Charles L. Wilson
1823 Beaver Pl.
Anchorage, AK
99504.

I recommend doing absolutely nothing to help Alaska Statebank.

Alaska State Legislature
Senate

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Senator Arliss Sturgulewski
FROM: Senator Joe Josephson
DATE: April 20, 1988

RE: Conversation with Dean Lester Thurow, School of Business, Massachusetts Institute of Technology

1. After reading the materials sent to him by me, consisting of documents in the files and packets of the Committee on Economic Recovery, Dr. Thurow telephoned my office today. A summary of his advice follows.

2. Those who say that Alaska experienced an oil-accelerated boom compounded by government spending are correct.

3. In hindsight, it is easy to say that Alaska state government should have saved its money until after the oil boom had peaked, thus prolonging prosperity and avoiding the drastic cycle of "boom" and "bust". The problem is that no government has acted that way; look, for example, at Wyoming, Calgory, and Denver.

4. Greg Erickson has been right about many things (see below). But it is "nonsense" to say or imply that a decline leads to an automatic rebound. You can "hit bottom" and still never rebound. A decline in wages, for example, does not inevitably lead to subsequent increases in earnings.

5. The contention that the October stock market crash occurred without great impact on the national economy is "not germane" to a discussion of the Alaska economy. (As a matter of fact, stock market prices were higher in January, 1988, then they were in January, 1987).

6. The housing problem can only be solved when there is "certainty" for investors that "the bottom is here". To hold property off the market may not be helpful. If we hold property off the market, investors will simply worry "when (we) will put it back (on the market)".

7. Sending trailers out of Alaska to the "Lower 48" is foolish.

8. It does make sense to tear down housing stock that should be torn down anyway. It does not make sense to destroy other, higher quality, housing stock.

9. The critical need is psychological. We need to let the bottom be reached quickly. The loss that has already occurred doesn't affect you, but if you expect that there is more of a fall ahead, there is a depressive effect on the market. Holding housing off the market is a temporary measure that is not stablizing and may have a depressing or destabilizing effect.

10. The fear of FDIC dumping "all at once" is exaggerated. FDIC won't do that, regardless of what you may hear. The Home Loan Bank Board doesn't do that either.

11. The basic rule ought to be this, in terms of proposals to involve the state in financial institutions: "How is the state going to make money on its money?" The state should never put up money unless it can make money on its money.

12. Bank failures do not have significant "ripple" effects on the economy. Depositors are protected. Good loans are maintained generally, and bad loans would probably have been foreclosed upon anyway by the bank that failed.

13. Dr. Thurow is skeptical about the idea that foreign investors are going to be persuaded to invest in Alaska's distressed real estate. The carrying costs are very high. In Alaska, the recession in real estate could last ten years. It is one thing to accept carrying costs for two years; it is another to accept them for a decade. Besides, if "a Hong Kong zillionaire" is looking to invest in U.S. distressed real property, there are places like Houston, Texas, that are more inviting, or resort or vacation properties that are more appealing.

14. The state should avoid "lemon socialism", where government gets the lemons, and the private sector keeps the good stuff. That's the reverse of the successful policies of the Japanese government; there government helps economic winners and takes profitable equity shares.

15. A primary concern ought to be local government. People depend on local services. It is important to avoid downward pressure on local services when the property tax base erodes.

16. Government should try "to get rid of uncertainty" that hangs over property values.

17. Dean Thurow is available to speak to us via teleconference.

ALASKA STATE CHAMBER OF COMMERCE

1988 State Legislative Program

Introduction:

In June 1987, ASCC's Strategic Planning Commission presented its "Report to Alaska's Economic Leaders," in which was outlined an economic framework and strategies for the Alaska economy into the 1990's.

A key element of the report was an "Export Model of the Alaskan Economy" depicting the value of "exports", or gross value of the state's basic economic sectors. So important are these sectors to the future development of Alaska, that State Chamber directors, in December, 1987, determined to base the Chamber's 1988 legislative agenda on position that would tend to enhance these basic economic sectors.

Additionally, ASCC's directors divided the Chamber legislative program into three categories: State Legislative issues, State Administrative Issues, and Federal Issues. The following are the Chamber's positions on state Legislative Issues. The Administrative and Federal Issues are also available from ASCC in the complete 1988 ASCC Legislative program.

1988 ASCC State Legislative Program

PART I: BASIC INDUSTRY ISSUES

(A) Oil and Gas

The Alaska State Chamber supports:

(1) Tax stability for the oil and gas industry. ASCC opposes implementation of separate accounting or legislation to change the Economic Limit Factor (ELF) on oil and gas severance taxes.

(2) The state legislature must pass a joint resolution supporting the opening of the Artic National Wildlife Refuge (ANWR) to environmentally responsible oil and gas exploration, development and production.

(B) Timber

The Alaska State Chamber supports state legislation to encourage and facilitate leasing of state land for commercial timber harvest and to develop a statewide timber management program.

(C) Fisheries

The Alaska State Chamber

(1) Supports the development of sea-vegetable and shell fish mariculture and continued research into other aspects of mariculture.

(2) Urges the legislature to support development of a fisheries policy.

(D) Minerals

The Alaska State Chamber supports:

(1) Passage of a state mineral policy as recommended in the Alaska Minerals Commission report.

(2) Assumption by Alaska Department of Environmental Conservation of water quality authority from EPA. Alaska's water quality standards should not exceed EPA standards.

(3) Classification of receiving waters to take into account downstream uses. Discharge charge standards should not exceed intake quality.

(E) Tourism

The Alaska State Chamber supports the development of a joint marketing plan between the Division of Tourism and private industry to make Alaska a destination for all travelers.

(F) Permanent Fund

The Alaska State Chambers supports the repeal of statutory provisions precluding the Alaska Permanent Fund from investing in foreign companies.

PART II: CROSS INDUSTRY ISSUES

(A) Energy

The Alaska State Chamber supports:

(1) Restructuring of the Alaska Power Authority Board of Directors to a five member body with four members appointed from the public sector and one member representing the state administration.

(2) Completion of a Bradley Lake Hydroelectric project.

(3) Use of Railbelt Power Development fund only for studies and construction of railbelt power projects.

(B) Transportation

The Alaska State Chamber supports:

(1) Full funding for adequate maintenance of the existing state transportation system. Further, life cycle costing and follow-on funding must be addressed on any additions to the System.

(2) Expansion of the road and highway transportation system, giving priority to highways that connect population centers, provide access to seaports, visitor attractions and economically viable resource areas.

(3) Acquisition by Alaska Marine Highway System of sufficient number of high speed ferries for passengers, freight, and vehicles to provide feeder service between main distribution points and smaller communities. Any savings or excess capacity realized from such action should be directed at improvement of transportation services in other coastal communities.

(4) Establishment of an Anchorage/Fairbanks Airport Authority.

(5) Assertion of rights and authority under revised statute 2477 (RS 2477) to protect valid existing public rights-of-way and to manage these rights-of-way on federal and state lands.

(C) Lands

The Alaska State Chamber supports:

(1) Legislation requiring Coastal Management Plans to be approved by the legislature prior to implementation.

(2) Legislation limiting coastal resource service area boundaries to lands where development poses a serious impact on coastal resources.

PART III: STATE GOVERNMENT

(A) Tax Stability

There should be no new or increased state business or corporate taxes.

(B) State Spending

(1) There should be a continued, aggressive reduction in the State's Operating Budget commensurate with reduced revenue and population projections.

(2) The legislature should take all possible steps to insure state dollars are spent in Alaska with Alaska businesses.

PART IV: ADDITIONAL LEGISLATIVE ISSUES CRITICAL TO ALASKA BUSINESS

(A) Worker's Compensation

The Alaska State Chamber supports the goals and objectives of the Worker's Compensation Committee of Alaska (WCCA).

(B) Tort Reform

The Alaska State Chamber supports the legislative initiative by Citizen's Coalition for Tort Reform entitled "An Act Relating to Civil Liability."

(C) Agriculture

The Alaska State Chamber recognizes Alaskan agriculture for its economic import substitution value and supports the efforts for the Alaskan agricultural industry to grow and prosper to benefit all Alaskans.

ALASKA STATE CHAMBER OF COMMERCE

1988 ADMINISTRATIVE ISSUES

Fisheries

The Alasks State Chamber of Commerce supports establishment of a long-term fisheries policy and adequate funding and management to accomplish objectives of the policy.

The Governor should create a high-level position to lead the development and implementation of the policy and pursue its objectives.

Timber

ASCC supports development of a statewide timber management program, long-term leases on State lands for commercial timber harvesting, and road access to leased areas.

Minerals

ASCC commends State efforts to resolve the Sierra Club/BLM lawsuit on placer mining, and urges continued efforts.

Energy

The State should investigate a policy for expansion of in-state use of coal for future electrical power generation, particularly in the railbelt region. ASCC supports research and development for expanded coal markets and beneficiation.

The State, appropriate federal agencies, and Canadian officials, should take action to ensure economical development and construction of the Southeast Intertie.

Tourism

ASCC finds that alpine and nordic skiing are an integral State park land use, and urges DNR to facilitate recreational development on State lands.

Transportation

ASCC supports:

- The 1986 Aviation System Plan and urges DOT/PF to develop a six-year program for implementing the policy and operating parameters contained in the plan.

- The Alaska Aviation Safety Foundation's ongoing efforts to improve aviation safety in local communities.

- Installation of state of the art navigation and airport approach systems.

ASCC acknowledges and supports the role of the Alaska Railroad Corporation in expanding economic development within the state.

ALASKA STATE CHAMBER OF COMMERCE

1988 FEDERAL ISSUES

Fisheries

ASCC will work with Alaska's Congressional delegation to resolve the issue of fisheries control in international waters of the Bering Sea known as the "Donut."

Timber

ASCC supports existing federal policies in the Tongass National Forest and maintenance of timber resource availability to sustain industry at sufficient levels to meet market demands.

ASCC opposes proposed expanded wilderness, HR 1516, and any other similar legislation.

Minerals

Valid existing rights of mining operations and claimants within Alaska's national parks and on public domain land should be protected by the State and the Department of Interior.

ASCC supports disposal of Quartz Hill mine tailings in Wilson Arm.

Lands

ASCC opposes further withdrawals of land from multiple use.

Energy

Provisions of the federal Surface Mining and Reclamation Act which do not take into account the unique and geographical circumstances in Alaska should be changed.

Tourism

ASCC supports expanded access to Denali National Park.

FDIC LIQUIDATION PROCEDURES

- Establish a permanent FDIC office in Anchorage to liquidate assets
- Evaluate assets based on financial statements and collateral
- List and sell real estate for independent appraised value
- Bulk sale performing loans to highest bidder
- On non-performing loans, attempt workout with debtors/guarantors (this includes compromises, refinance, extension or modifications of terms, interest moratorium, substitution of collateral). Bulk sale to highest bidder
- Refer assets for litigation (including foreclosure) when workout efforts fail
- Repossess collateral when workout efforts fail

FDIC PLAN IF ASSETS ARE SOLD

- Temporary FDIC office in Anchorage would be closed

Uniform Appraisal Instructions To Appraisers For FDIC Real Estate Properties

(Not Required for Residential Single Family Properties)

1. *Appraisals are to be made assuming a sale on a cash basis;* however, if the appraiser is uncomfortable with supplying a valuation on a cash basis because of lack of comparable sales on a cash basis, a valuation based on typical terms, as provided for in item 2 below, may be used instead. If the appraiser prefers, he/she may also value the property on both a cash basis and on a typical terms basis. FDIC *does not* want fire sale or liquidation value appraisals.

2. Appraisals are expected to reflect values based on sales prospects considering *existing* economic conditions.

3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.

4. All appraisals are to be on an "as is" basis.

5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.

6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.

7. All appraisals, *including updated appraisals,* must be in writing.

8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is *likely* obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.

9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.

10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.

12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.

13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.wk1

	Anchorage Girdwood	Nome Kotzebue Bethel Barrow Prudhoe Bay	Chugiak Peters Creek Eagle River	Fairbanks Delta Jct/Tok North Pole Eielson AFB	Homer Seward	Kenai Soldotna	Juneau Douglas	Palmer Wasilla Big Lake Willow Talkeetna	Valdez Glennallen Copper Center	Other Alaska/ Unknown **	Outside Alaska	TOTAL @@
Bank of the North												
Real Estate/Const	15,758,131 85	1,132,290 8	284,832 5	2,536,787 28		367,492 2	2,523,366 16	3,617,356 9		1,632,293 9	2,052,075 10	29,904,622 172
Other Real Estate	2,249,168 12	0 0	158,913 3	1,444,578 18		128,160 1	1,577,924 7	287,608 5		21,184 1		5,867,535 47
Commercial	17,616,406 83	1,450,707 14	96,041 3	10,489,694 149		56,917 2	1,705,584 25	706,862 11		2,091,524 18	2,357,472 21	36,571,206 326
Installments	193,188 27	33,128 11	18,518 2	256,889 45	740 1		64,052 8	2,401 1	2,059 1	16,884 4	56,899 15	644,758 115
Subtotal	35,816,892 207 49.07%	2,616,125 33 3.58%	558,303 13 0.76%	14,727,948 240 20.18%	740 1 0.00%	552,569 5 0.76%	5,870,926 56 8.04%	4,614,227 26 6.32%	2,059 1 0.00%	3,761,885 32 5.15%	4,466,447 46 6.12%	72,388,121 660
Judgements												
Charge-Offs ##	6,432,197 552	479,955 72	481,242 37	4,333,409 398	12,095 5	10,892 11	1,529,237 106	382,629 31	73,976 15	2,516,280 179	964,279 421	17,216,191 1,827
Subtotal	6,432,197 552 37.36%	479,955 72 2.79%	481,242 37 2.80%	4,333,409 398 25.17%	12,095 5 0.07%	10,892 11 0.06%	1,529,237 106 8.88%	382,629 31 2.22%	73,976 15 0.43%	2,516,280 179 14.62%	964,279 421 5.60%	17,216,191 1,827
ANB Total	42,249,090 759 46.84%	3,096,080 105 3.43%	1,039,545 50 1.15%	19,061,357 638 21.13%	12,835 6 0.01%	563,461 16 0.62%	7,400,163 162 8.20%	4,996,856 57 5.54%	76,035 16 0.08%	6,278,165 211 6.96%	5,430,725 467 6.02%	90,204,312 2,487
TOTAL (CHG-OFFS & JDGMENTS EXCLUDED)	144,537,681 504 67.93%	2,970,207 35 1.40%	5,754,000 33 2.70%	14,992,530 243 7.05%	2,673,824 25 1.26%	3,718,040 27 1.75%	6,762,409 60 3.18%	16,776,233 95 7.88%	68,921 4 0.03%	4,498,220 39 2.11%	10,022,290 78 4.71%	212,774,354 1,143
TOTAL INCLUDING CHG-OFFS & JDGMENTS	159,290,301 1,170 65.20%	3,450,162 107 1.41%	6,326,888 77 2.59%	19,325,939 641 7.91%	2,830,761 36 1.16%	4,218,067 49 1.73%	8,231,646 166 3.39%	17,850,582 151 7.31%	205,070 20 0.08%	11,032,371 257 4.52%	11,470,623 516 4.70%	244,292,410 3,190

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

Figures on Bank of the North Chargeoffs for "Other Alaska" and "Outside Alaska" are approximate.

@@ Totals reflect gross loan balances; i.e., "Participations Sold" balances plus FDIC book value.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-98
File Name: 0156eogstrat.wk1

First Interstate	Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown ##		Outside Alaska		TOTAL ##	
Real Estate/Const	57,411,882	94	337,388	1	715,128	2			1,290,472	4	861,983	5			8,065,047	18			549,118	1	3,975,404	14	73,226,422	139
Other Real Estate	17,921,277	60			142,050	4			632,335	7	802,394	4	671,356	1	1,940,908	27	1	1	98,900	1			22,209,221	105
Commercial	33,041,204	131	16,694	1	4,338,519	14	243,871	2	748,671	11	1,452,239	7	220,127	3	2,109,437	21	66,861	2	60,286	2	1,552,932	14	43,850,841	208
Installments	346,426	12					20,711	1	1,606	2	48,855	6			25,613	3			28,031	3	27,508	4	499,749	31
Subtotal	108,720,789	297	354,082	2	5,195,697	20	264,581	3	2,673,084	24	3,165,471	22	891,483	4	12,162,006	69	66,862	3	736,335	7	5,555,843	32	139,786,233	483
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.97%			
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,254	35
Charge-Offs	7,862,691	96			65,586	5			121,108	4	450,308	8			637,991	21			4,017,872	39	424,015	12	13,579,571	185
Subtotal	8,320,423	114			91,646	7			144,842	6	489,135	11			691,720	25	62,174	1	4,017,872	39	484,053	17	14,301,865	220
	58.18%				0.64%				1.01%		3.42%				4.84%		0.43%		28.09%		3.38%			
FIB Total	117,041,212	411	354,082	2	5,287,343	27	264,581	3	2,817,925	30	3,654,606	33	891,483	4	12,853,726	94	129,036	4	4,754,207	46	6,039,897	49	154,088,098	703
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%			

The FDIC states that it will not "dump" its real estate holdings on the Alaskan market.

1. What assurances do we have of this?
2. What (If there were a dump) would be the effect on the loan portfolios and the collateral backing up these loans at healthy Alaskan banks? ✓
3. Other Alaskan banks are members of the FDIC. Is the FDIC liquidation scheme required to consider the impact on other (healthy) banks? ✓

We have heard about a concept that would create a stabilization entity which could be formed by all holders of "other real estate owned (OREO)", defaulted loans, and delinquent loans. All of these assets could be pooled by banks and federal and state agencies, held for stabilization purposes and eventually liquified. Liquidation proceeds would then be passed back to the agencies whose assets made up the pool.

1) Would FDIC be receptive to further discussion on this concept.

2) If the State was willing to advance funds for operating expenses to carry these assets for a period of time for stabilization purposes, would FDIC be more inclined to be a participant in the pool.

Does the FDIC intend to open an office to manage its Alaskan portfolio of assets?

What is the FDIC's annual cost-of-carrying these assets expected to be?

DAR

Greens Creek is expected to have about 65,000 ounces of gold in its yearly output of concentrates which will also include more than 8 million ounces of silver plus commercial amounts of zinc and lead. In addition, the small Grant Mine at Ester Dome near Fairbanks reopened late last year to work a surface vein but is scheduled to resume underground mining late this year. Also, Alaska Apollo Gold Mines Limited has announced that a small but high grade deposit at the historic Apollo property in the Shumagin Islands will be produced under a joint venture with Nevada Goldfields, an affiliate of Golconda Minerals of Australia. No timetable was announced but, if the tentative agreement is completed, development is expected to cost up to $10 million. The confirmed reserves of about 280,000 tons grade out at one-half ounce of gold and nearly 2.5 ounces of silver per ton.

PERMANENT FUND PROJECTIONS SHOW EARNING SHORTFALL BY 1994

Financial projections published in the middle of fiscal year 1988 show annual increases in the amount of the Alaska Permanent Fund through 2005. But legally mandated annual dividends will cause a shortfall in inflation proofing contributions to the fund's corpus, beginnning in 1994. The Alaska Permanent Fund Corporation's calculations show the annual dividend rising from about $1,000 that year to nearly $1,900 in 2005. At the same time, the inflation cushion shortfall is expected to rise from $15 million in 1994 to $258 million at the end of the period. But, in 2005, the fund is projected to total nearly $25 billion and will receive contributions of $1.25 billion in inflation proofing plus $172 million in dedicated state mineral revenues.

The projections use Department of Revenue population and revenue forecasts. They assume a 6 percent inflation rate for most and a 9 percent gross rate of return for all the 17.5 year period. Some indication of the conservative nature of the projections can be seen in the fact that the figures call for a fund balance next July 1 of some $8.54 billion while, in fact, the balance stood at approximately $9.1 billion on Jan. 1 of this year. Also, while the net or "real" rate of return on fund investments is projected at 3 percent through 2005 the rate has not been that low since 1981 and has run as high as 11.75 percent (in 1987). Halfway through fiscal 1988 the real rate of return stood at 5.3 percent. Under the projected formula, dividends to Alaskans will total $25.5 billion between the start of distribution in 1982 and 2005 which will coincidentally be just slightly more than the fund balance at that time.

CHUGACH ELECTRIC BIDS TO CUT DEBT SERVICE COST

Chugach Electric Association (CEA) is attempting to position itself to take advantage of an admittedly long shot opportunity to refinance part of its long term debt at a substantial reduction of interest rate. CEA hopes to take part in a current federal budget provision guaranteeing the roll over of up to $2 billion in high interest Rural Electrification Association related loans to current interest rates. The program is aimed at bailing out eight troubled power cooperatives Outside but CEA hopes to be first in line for any money left over after the bailouts.

To position itself, CEA hired Smith Barney, Harris Upham and Company, Inc. as an agent to devise the refinancing plan and has filed such a plan with the Alaska Public Utilities Commission as required by that agency. Under an expedited hearing process that will allow CEA to submit its prepayment application to REA by Feb. 26, the Commission is accepting public comment on the plan until Feb. 22 at its Anchorage offices. CEA wants to roll over up to $108 million of debt (about one-third of its total) which currently bears interest rates of more than 12.6 percent. David Highers, CEA manager, estimates refinancing at current interest rates would save the utility nearly $1.5 million a year in debt service.

FORECLOSURE RATE IS UP BUT VALUES DOWN FOR COMMERCIAL TYPE LOANS

The rate of foreclosure type actions on real estate loans in excess of $250,000 jumped sharply in the southcentral Alaska area during the first half of February. The 16 foreclosures in early February matched the total for the entire month of January. But the value of the loans was nearly $20 million, or some 25 percent more than the value of all foreclosure actions initiated during the prior month. Most of the value, however, was in a single development of Peter Zamarello in southwest Anchorage near the intersection of Dimond Boulevard and the Minnesota Expressway. Including unpaid interest, Security Pacific has a claim of more than $15 million on the property. A list of borrowers, loan dates, property locations, lenders, amounts and sale schedules follows:

(Continued)

- Optima, Inc., November 1984, Timberview Sub. properties in the Matanuska-Susitna Borough, North America Savings & Loan Association, $282,200 plus interest, March 1, Anchorage;
- Dick Leonard, August 1986, Wasilla West Sub. property in the Matanuska-Susitna Borough, Federated Financial Corporation, $250,000 plus interest, March 3, Anchorage;
- Milburn G. Cox Jr. and Marina M. Cox, July 1984, Spenard Heights Sub. property in Anchorage, North America Savings & Loan Association, $257,685.91 plus interest, March 8, Anchorage;
- Charles F. McAlpine, November 1978, Wonder Park Sub. property in Anchorage, Alaska Statebank, $379,926.72 plus interest, March 8, Anchorage;
- Anton Zuber, January 1978, Highway Park Sub. property in Anchorage, J.D. & Marcene O. Simpson, $318,903.61 plus interest, March 18, Anchorage;
- John E. Caston and Statewide Services Inc., unspecified, Willowcrest Sub. property in Anchorage, Alaska Mutual Bank, $278,963 plus interest, March 22, Anchorage;
- Benchmark Inc. and Professional Alaskan Properties Investment Fund No. 17, November 1983, Mountain View Sub. property in Anchorage, Coast Savings & Loan Association, $717,137.43 plus interest, March 29, Anchorage;
- Richard S. & Gaylee P. Warner, September 1983, Carolyn Acres Sub. property in Anchorage, Alaska Housing Finance Corporation, $253,521.26 plus interest, March 31, Anchorage;
- Robert N. & Patricia F. Stafford, April 1984, Aurora Park Sub. property in Anchorage, Alaska Permanent Fund Corporation, $265,337.03 plus interest, April 6, Anchorage;
- James F. & Rhonda L. Allison and Blue Chip Investments, March 1984, Aurora Park Sub. properties in Anchorage, Federal National Mortgage Association, (two loans totaling) $656,336.34 plus interest, April 7, Anchorage;
- Robert W. Kubick, James D. Chapman and Q&O No.2 (general partnership), May 1981, Devonshire Sub. property in Anchorage, Thomas L. & Lila Lee Boyle, $337,124.42 plus interest, April 15, Anchorage;
- Scott W. & Heidi Framstad, September 1985, Crestview Village Sub. property in Anchorage, Great Western Savings Bank, $266,803.07 plus interest, Apr. 26, Anchorage;
- Peter G. & Patricia Zamarello, September 1984, Lakeview Terrace Sub. property in Anchorage, Security Pacific Mortgage & Real Estate Services Inc., $14,771,224.93 plus interest, May 9, Anchorage;
- Goentzel Builders Inc., March 1984, Galatea Estate Sub. property in Anchorage, United Bank Alaska, $250,000 plus interest, May 10, Anchorage;
- Paul Hartig, Richard N. Anderson et alia, July 1984, Matanuska-Susitna Borough tract, Alliance Bank, $268,125.53 plus interest, May 13, Anchorage;
- Sandra A. Dema-Fredette, October 1985, C.S. Lloyd Sub. property in Anchorage, National Bank of Alaska, more than $250,000, judicial foreclosure.

RECENT BUSINESS RELATED BANKRUPTCIES IN ALASKA

Gilbert D. & Caroline K. Fluery fdba/B&F Trucking, Ch. 7 filed Feb. 8 in Fairbanks; David M. & Cheryl K. Rabb dba/Capitol Postal, Ch. 7 filed Feb. 10 in Anchorage; Lynn James Harnisch dba/Wolly Mammoth and Ruth Susan Harnisch, Ch. 7 filed Feb. 11 in Fairbanks; Truss Lands & Livestock, Inc. Ch. 11 filed Feb. 16 in Anchorage; Marion Elaine Thomas Carter, Ch. 13 filed Feb. 16 in Anchorage; Forest Park Hills, Inc., Ch. 11 (filed Oct. 2, 1987 in Florida) venue changed to Anchorage Feb. 17.

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Commonwealth North wants fund used to bolster economy

By BILL WHITE
Daily News business editor

During severe recessions, permanent fund earnings should be spent to buttress the econony rather than used to offset the effects of inflation on the fund, a civic group proposed Tuesday.

Other investment earnings of the $9 billion savings account should be earmarked for a new fund that would finance construction projects that would expand the state's economy, Commonwealth North said.

The proposal, if adopted, would reduce future annual permanent fund dividends paid to Alaskans by slightly restraining the growth of the fund. But the group has an answer for that, too, by recommending the dividends be capped.

Dave Chatfield, an Anchorage banker and chairman of the committee that wrote the 12-page proposal, said the report is designed to answer a key question about the permanent fund: For what are we saving this money?

Their answer is to use it "to help level out the sharp peaks and valleys of Alaska's historic economic cycle," Chatfield said.

Alaska voters created the fund in 1976 to save some of the coming oil bonanza. The fund gets about 10 percent of the state's oil revenue. That money cannot be spent, only invested. But the profits from investments can be spent, and currently are spent on the state's annual permanent fund dividend to Alaskans and for inflation proofing the fund.

"The use of permanent fund earnings is a sensitive and easily misunderstood issue," Chatfield said.

"The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act."

State legislators offered more than 50 proposals last year on permanent fund earnings, he said. Commonwealth North decided to join in with its opinion. An 18-member committee of the group studied the issue for the last year.

The main proposal involves using the fund's earnings to stimulate the economy during recessions and to slow the economy — by not spending earnings — during times of rapid growth.

The earnings would be funneled into the economy through per-capita revenue sharing payments to local governments.

The local governments could ask voters how to spend the money, pay the money directly to citizens, or use it for street repair, tax relief or the like, Chatfield said.

A new economic index that included relatively current spending, salary, sales and employment figures would be used to determine if the economy is growing or shrinking.

Commonwealth North also dusted off its old plan to create a fund that would build revenue-producing facilities around the state.

Under the new plan, the construction would

See Page B-5, COMMONWEALTH

COMMONWEALTH: Group wants fund cap

Continued from Page B-1

be financed by bonding, matching funds or use of some of the $516 million reserve set aside in the permanent fund for future dividends or inflation proofing.

Commonwealth North didn't state how much of that reserve should go to its Alaska Development Fund. But in discussions the range was $50 million to $100 million, he said.

"We still believe something like this is long overdue," Chatfield said. "We need to be

replenishing our capital instead

Another proposal calls for

nent fund dividends at, perhaps, $1,000 Alaskan or a total distribution of 40 per of fund earnings.

Last year's dividend was $ each total of 37 percent of the earnings percent of expected earnings would dividend of about $550 this year.

Chatfield said he circulated the last week in Juneau, where favorably

A POSITIVE COUNTER-CYCLICAL FORCE IN THE ALASKA ECONOMY



SUMMARY:

The Permanent Fund represents visionary public policy and, as a savings account, has been well managed. Its earnings should be used as a counter-cyclical force to funnel monies into the grassroots economy through local government in particularly troubled economic times. When times are good, these earnings should be placed in the Fund. The more fundamental crisis, the long-term lack of diversification in the Alaska economy, must also be addressed by the Legislature. To research revenue-generating proposals, the Legislature should establish an Alaska Development Board, the specifics of which are outlined in this report.

A report by
The Commonwealth North
Permanent Fund Committee

First printing . . . . February 1988

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Anchorage, Alaska 99501

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IN ADDITION TO DIVIDENDS, WHAT SHOULD THE EARNINGS OF THE PERMANENT FUND BE USED FOR?

The Alaska Permanent Fund was created by a public referendum in 1976. It was established as an inviolate trust with the principal of the Fund to be invested in perpetuity. The beneficiaries of the trust were to be all present and future generations of Alaskans.

At its origination, nearly everyone agreed upon one purpose for the Fund — to remove a portion of Prudhoe Bay revenues from the appropriations table, making them unavailable for state spending. This has worked. Indeed, 22% of the $26 billion in oil revenues received by the state since Prudhoe Bay production began has been deposited into the Permanent Fund, saved and invested. At the end of 1987, total assets of the Fund totalled close to $9 billion.

Although the citizens of Alaska are nearly unanimous in their enthusiasm for the Fund and its management, there is less of a consensus on how to use the Fund's earnings, except for the popular dividend program. These earnings since 1978 total $4.3 billion, 30 percent of which was distributed as dividends to the Alaska people.

Numerous conflicting proposals have been introduced on how to best use the earnings of the Fund. Most of these proposals have been met with suspicion and cries from some quarters warning against "raiding the Fund." This highly charged environment has led to hesitancy and inaction by Alaska's political leaders, and the central question has gone unanswered: what are we saving this money for?

What are we saving this money for?

During the mid-1980's there was little need for using the "non-dividend" or undistributed earnings.. Times were good generally throughout the state. Local and regional economies were booming, fueled by oil activity at Prudhoe Bay and the attendant revenues amassed by state government. After the distribution of dividends to all Alaska residents, the remaining Permanent Fund earnings were simply set aside and from time to time added to the corpus of the Fund by the Legislature with encouragement from the Governor.

However, as 1988 begins, many Alaskans face difficult economic circumstances, and there is a growing sense of urgency and frustration.

"We've been saving money for a rainy day," many say. "Can't they see it's raining out there?"

"This recession is not a dip, it's an abyss," said an Anchorage property owner and builder. Many of his colleagues have filed bankruptcy, walked away from years of investments, and left Alaska. State and federal regulators have either closed or merged eight financial institutions. Thousands of residents have lost their homes and businesses.

Economists who look beyond the immediate crisis to the long-term economic health of the state express grave concern that North Slope oil production will begin a steady decline within 24 months.

It is against this backdrop that the Board of Directors of Commonwealth North commissioned a committee to study the Permanent Fund and how best its earnings might be utilized to help Alaskans, both in the short-term and in the long-term.

The Committee met weekly for three months. It heard presentations from policy makers and reviewed materials provided by the Permanent Fund staff and other sources.

After weeks of debate, the Committee determined that, in addition to dividends, the earnings have the capacity to play a major positive role in the Alaska economy. The members then prepared the following report.

RECOMMENDATIONS

Recommendation One:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

Recommendation Two:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation proof" the Fund.

Recommendation Three:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

Recommendation Four:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Recommendation Five:

The Permanent Fund dividend program is beneficial and should be continued; however, there should be a limit on the size of the dividends.

Recommendation Six:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth, but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

Recommendation Seven:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Recommendation Eight:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

RECOMMENDATION ONE:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

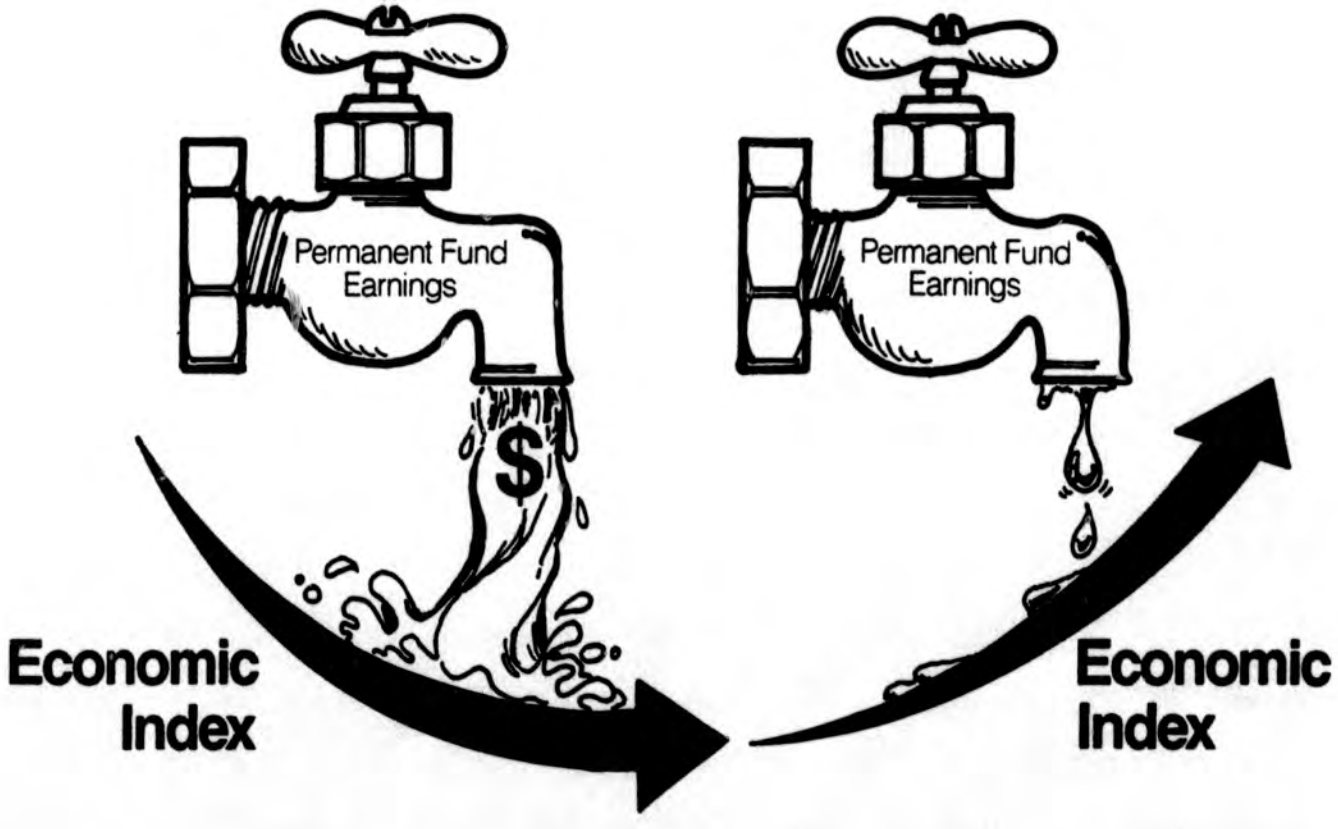
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times and money withdrawn from the economy during times of rapid growth.

At the national level the Federal Reserve Board has achieved success in controlling inflation and in combatting recession. The Board makes its decisions based on a number of leading and trailing economic indicators. The instruments it uses in pursuing its objectives are monetary in nature, i.e., interest rates and other mechanisms which affect the quantity of money in circulation.

Although Alaska has no comparable monetary tools, Alaska's Permanent Fund earnings could play an equally important and significant role through fiscal (appropriation) policy. This approach should and can be handled carefully so that the earnings are used wisely and distributed fairly throughout the state.

Establishing an economic "spigot"

To begin with, the Legislature should establish a broad-based economic index, written in law, which will determine when Permanent Fund earnings should be injected into the economy and when they should be withdrawn.



This index should include available Alaska economic indicators such as

- Consumer spending
- Savings and investments
- Public and private sector employment
- Wage and salary rates
- Housing starts
- Retail and wholesale sales
- Value of contract construction
- Personal income
- Gross state product
- State revenues

This index will enable the Alaska Legislature and the Governor to determine objectively the performance of the economy and its outlook and become the basis for formulating the state's fiscal policy.

If the index begins to drop, the administrative department, legislative committee, or board of advisors the Legislature designates would recommend appropriation of a portion of the earnings. If the index rises, such spending would be reduced or terminated and the earnings retained instead. In this way, the Permanent Fund would operate as a counter-cyclical force designed to minimize the volatility of economic contractions and expansions.

RECOMMENDATION TWO:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation-proof" the Fund.

Because of the unique nature of the Permanent Fund, drawn from one-time resource revenues and held in trust for all, it is recommended that the flow of money from the earnings (apart from the dividends) be directed to local governments on a consistent per-capita basis. In this way each local entity can make its own judgments as to what its citizens most need, whether jobs, street repair, tax relief, etc. This dispersion will strengthen local decision-making authority and responsibility.

In the unorganized borough, service areas or regional education districts should be the recipients of these funds so that the per-capita disbursement reaches all Alaskans.

The Legislature may wish to establish certain parameters for local governments to use in order to ensure that this special distribution of the Permanent Fund earnings is spent in the most economically beneficial manner. For example, services obtained with these funds should be contracted out to private firms wherever possible. This approach will support the private sector while permitting more rapid expansion and reduction of services without enlarging local bureaucracies.

Use of an impersonal barometer such as the index suggested above and a per-capita formula will help to negate the regional and personal politics which too often dominate the legislative spending process.

RECOMMENDATION THREE:

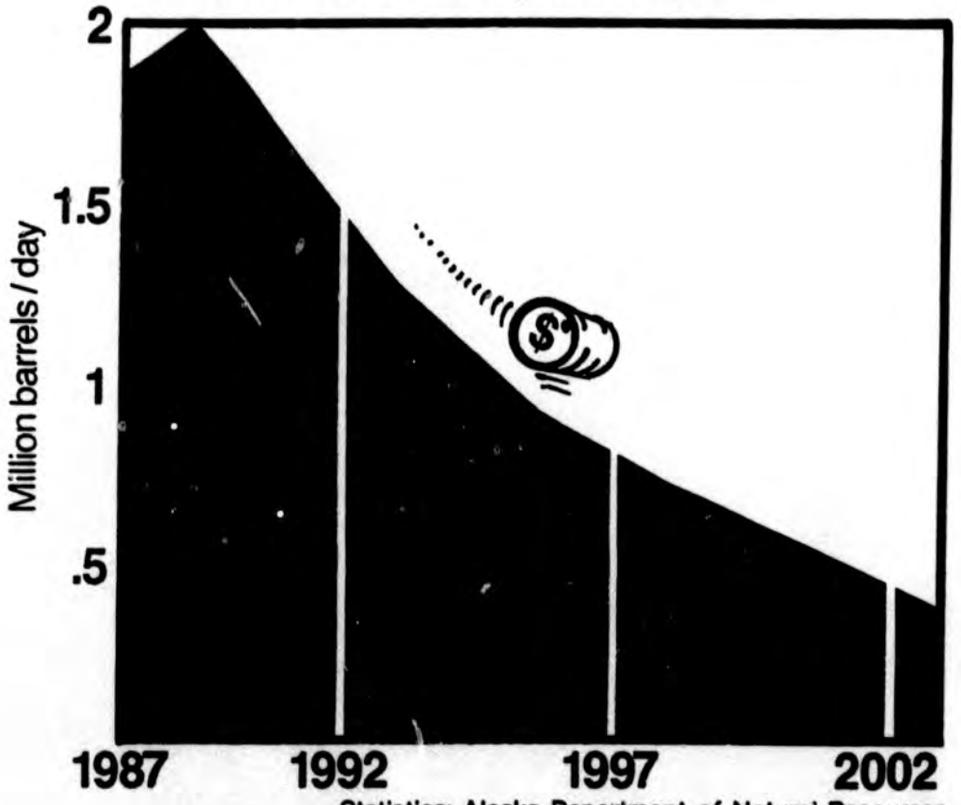
The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

As mentioned earlier, Prudhoe Bay production will begin a rapid decline within the next 24 months. According to the Alaska Division of Oil and Gas, that decline will reduce the trans-Alaska pipeline throughput from today's 2 million barrels a day to 500,000 a day by the year 2002.

In other words, in just 14 years, production from the resource development activity which now accounts for 82% of state revenue will be just one-quarter of what it is today.

Unless other major sources of revenue are developed, Alaska has a calamity in the making. No other Alaska resource comes close to the potential of North Slope oil for generating revenues. In FY 82 these revenues peaked at $4.1 billion, but by FY 87 they had dropped to $1.7 billion. If oil prices stay in the $16-$18 range, Prudhoe Bay revenues in 2002 will be just $425 million (in nominal dollars).

Estimated Production of Alaska North Slope Crude Oil



Statistics: Alaska Department of Natural Resources

The Alaska Development Board

The crying need, the missing element in Alaska's overall state spending and investment strategy, is an aggressive program to diversify the economy and replenish the sources of jobs and revenues now provided on the North Slope.

To begin to accomplish this end in a thoughtful but activist manner, the Legislature should create an Alaska Development Board similar in structure to the Permanent Fund board of trustees. The task of this new board would be to research, study feasibility, and recommend to the Legislature and the Governor major revenue-generating, in-state capital investments which can help diversify the economy into the next century.

Projects that would qualify would have to have an assured source of repayment; i. e., they must have the capacity to generate substantial revenues through tariffs, rents, and user fees. Examples include docks, railways, causeways, electrical generation units, water systems, and wastewater plants.

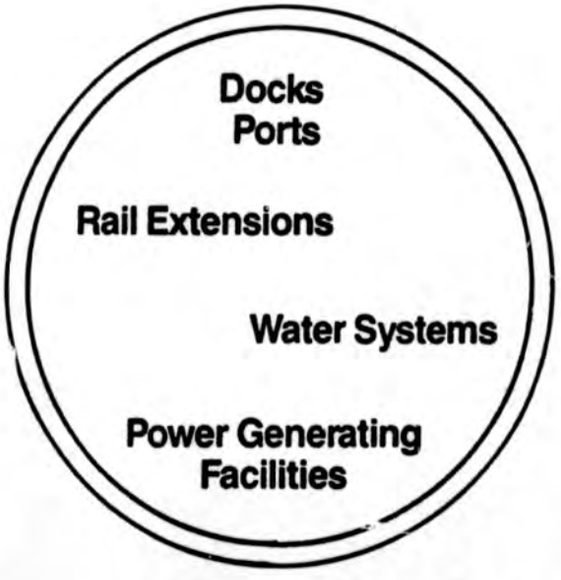
The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example. The Navy traditionally rents such facilities over a many year period.

Only revenue-generating projects would be considered.

It is vital that a distinction be drawn between capital projects, such as quality-of-life facilities (of which Anchorage's Project 80's is a prime example) and the kinds of revenue-generating projects that can pay their own operating and maintenance costs and return the original start-up investments to the state. It is only the latter which would be considered by the Alaska Development Board.

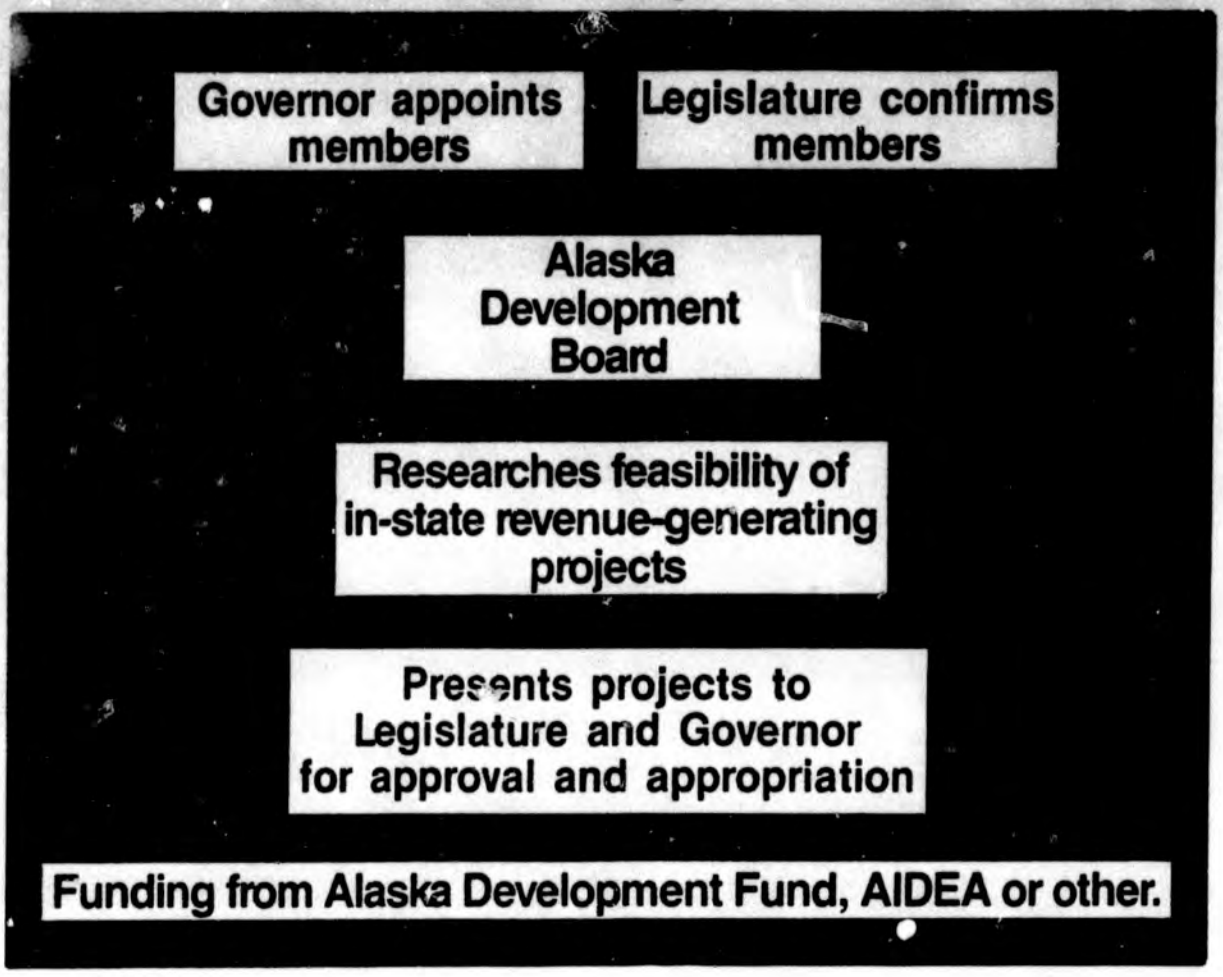


Capital projects which require on-going taxes or revenues to operate.



Revenue-generating projects which pay back investments and cover own O/M costs.

The Alaska Development Board



Membership of the Board

The members of the Board should be appointed by the Governor and approved by the Legislature. They should be given an arm's length relationship and a mandate to take a statewide viewpoint, just as the Permanent Fund Trustees divorce themselves from the special interest entanglements of the political process. Individuals must be named to this board on the basis of professional qualifications, emphasizing experience in designing, financing, guiding, and operating major projects of the magnitude which can strengthen Alaska's economic future.

RECOMMENDATION FOUR:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Funding for the projects recommended by the Development Board and approved by the Legislature can be derived from several sources, including revenue bonds through the Alaska Industrial Development and Export Authority (AIDEA). This approach was used to finance the construction of the road to the vast Red Dog lead and zinc reserve northeast of Kotzebue.

In addition, the Legislature should set aside a one-time deposit of a portion of the undistributed earnings from the Fund. This large pool of dollars, known as the Earnings Reserve Account, currently contains $516 million. Another possible source to establish an Alaska Development Fund is the windfall monies from oil litigation such as the Dinkum-Sands settlement ($329 million). The reserves in the Alaska Development Fund would be saved and invested by the Permanent Fund Trustees until they are appropriated by the Legislature to facilitate projects recommended by the Development Board.

The Legislature has the final say.

It is important to emphasize that the Alaska Development Board would not have the power to allocate monies from the Alaska Development Fund. That prerogative would remain with the Legislature (with the concurrence of the Governor) which is charged by the Constitution with the task of appropriating funds.

RECOMMENDATION FIVE:

The Permanent Fund dividend program is beneficial and should be continued; however there should be a limit on the size of the dividends.

One of the very positive benefits of the Permanent Fund dividend has been the link it has created between the citizens of the state and the government. Just as personal income taxes in other states keep citizens alert to the spending decisions of their elected representatives, so the Permanent Fund dividend program has made Alaskans sensitive and attuned to how resource revenues are used.

Since the program's inception, a total of $1.48 billion has been distributed and the benefits to the state's economy are recognized by nearly all Alaskans. The size of the dividend distribution, however, should be capped at an amount such as 40% of the annual earnings, as recommended last year by the State Senate, or at $1,000 per person per annum.

RECOMMENDATION SIX:

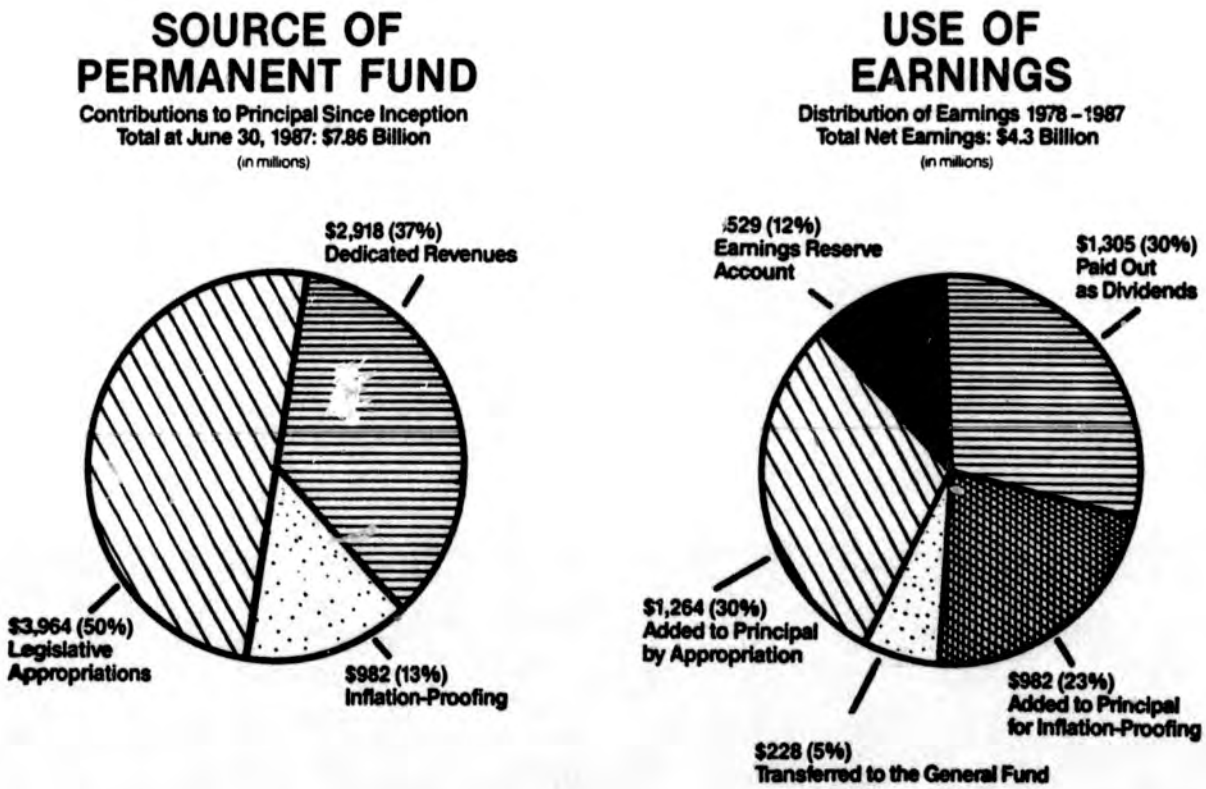
Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

A portion of the Permanent Fund's earnings has been used annually to strengthen the Fund and help it to grow and combat inflation.

The Legislature has also demonstrated fiscal wisdom by appropriating large additional sums to the principal of the Permanent Fund during years of affluence. In fact, an impressive $3.964 billion of the Fund resulted from such actions. This policy has been a wise one, especially in times of great wealth.

But "inflation-proofing" in a seriously depressed economy does not fulfill the original intent of the Fund which was to benefit all generations of Alaskans, including those currently trying to survive and make ends meet. In times of a shrinking economy, "inflation-proofing," if continued apace, will choke out all other uses of the earnings when, instead, a portion of those earnings should be injected into the economy through Alaska's communities as recommended herein.

And, as suggested in Recommendation One, it should be written into law that, in times of growth and expansion in the state's economy, the Fund should be strengthened by the Legislature through redeposit of the earnings.



Such action will help combat the erosion of the Fund due to inflation, avoid overheating of the economy and at the same time reduce public spending.

But the Legislature should not make annual anti-inflation appropriations regardless of the real world circumstances being faced by Alaska's citizens.

RECOMMENDATION SEVEN:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Alaskans are keenly aware that state government grew rapidly at the advent of Alaska's oil wealth, far outdistancing all other states as to number of employees per capita, wage levels and benefits.

The waste in state government must be dealt with and the excesses curbed.* None of the earnings from the Permanent Fund should be allocated to state government operations in the foreseeable future, absent a major calamity or emergency.

To date, the earnings have been almost entirely used for inflation-proofing the Fund or dividends distributed equally to all Alaska residents. The recommendation in this paper that earnings be used as a counter-cyclical force in the economy calls for a per-capita distribution, maintaining the philosophy that this Fund is held in trust by all residents of the state and therefore any distribution should be made on an equal basis.

It should be remembered that approximately 85% of all royalties and revenues derived from North Slope oil activities are funneled directly into the General Fund out of which the Legislature appropriates monies for government operations. It is the firm conviction of this committee that earnings from the remaining 15% set aside in the Permanent Fund should be added to the General Fund only in case of a major calamity or emergency.

* *Note:* For strategies to reduce state government spending without precipitating a "crash landing", see the December 1986 Commonwealth North report, *Alaska's Budget Crisis, Facing the Facts — Closing the Gaps.*

RECOMMENDATION EIGHT:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

Public policies for using Permanent Fund earnings should be written in statute and thus remain flexible so that the Governor and the Legislature can respond to changing circumstances. World oil prices, the main determinant in state revenues, are too volatile to incorporate spending policies into the Constitution.

A number of fixed formulas were reviewed and studied carefully, including the 40-30-30 amendment proposed by the State Senate last session. All of them contain a number of excellent concepts. They should not, however, be incorporated in the Constitution.

Likewise, Commonwealth North's 1982 recommendation to create a Capital Investment Fund through a Constitutional amendment should be replaced by the approach outlined in this report.

If the recommendations in this report are adopted by the Legislature and function successfully, then there will be no need to lock them into the Constitution. Public support will keep them intact. If they are poorly managed, or fail to be successful for other reasons, they can and should be changed by a future Legislature without having to go through the Constitutional amendment process.

Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. Non-partisan in nature, its purpose is to inject enlightened vitality into the world of commerce and public policy.

As well as providing a forum for national and international speakers, working committees study critical issues facing the state and the nation and prepare well-researched action papers, such as this one.

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LEGISLATION #1
AMENDMENT TO CURRENT STATUTES PERTAINING TO USE OF PERMANENT FUND EARNINGS

To allow for a counter-cyclical use of undistributed Permanent Fund earnings to be distributed through local municipalities on a per-capita basis.

FINDINGS:

The Legislature finds that the earnings from the Permanent Fund should be used as a positive, counter-cyclical force in the Alaska economy. When economic indicators dip as determined by an Alaska Economic Index (see Article 1), earnings in excess of those used for dividends should be appropriated directly to municipalities on a per-capita basis. When indicators rise, these earnings should be withdrawn from the economy and used to help inflation-proof the corpus of the Permanent Fund.

ARTICLE 1. The Alaska Economic Index

The following Alaska economic indicators will be used to establish an Alaska Economic Index: consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value of contract construction, personal income, gross state product, state revenues.

ARTICLE 2. Using the Index

On a annual basis, the Department of Revenue or a Council of Economic Advisors (as designated by the Legislature) shall publish the Alaska Economic Index which will in turn determine whether Permanent Fund earnings in excess of those used for dividends should be added to or withdrawn from the economy.

ARTICLE 3. Recipients of earnings

When the Alaska Economic Index calls for adding Permanent Fund earnings to the economy, they will be designated on a per-capita basis to local governments throughout Alaska.

Article 3.1

For the Unorganized Borough, the Department of Community and Regional Affairs which serves as the Borough manager for the Unorganized Borough, will receive and distribute the Unorganized Borough's share of earnings.

Legislation #1

Article 3.2 Parameters for municipal spending of earnings

Each local government will be encouraged to make its own judgments as to the best use of the earnings received through this program.

Article 3.3 Taking spending decisions to a vote

When a municipality desires public input, community votes may be taken to determine the best use of these earnings, including options such as alleviation of taxes, construction and maintenance of capital projects, distribution of dividends, creating a local Permanent Fund, etc.

LEGISLATION #2
THE ALASKA DEVELOPMENT BOARD

FINDINGS:

Alaska state government must provide leadership in the area of infrastructure development which is essential to diversify the Alaska economy. An Alaska Development Board is necessary to focus these issues for Alaska's people and their elected representatives.

ARTICLE 1

An Alaska Development Board is hereby established.

ARTICLE 2 Membership

There shall be six members of the Alaska Development Board, four private sector members and two from the Governor's cabinet. They shall be appointed by the Governor and confirmed by the Legislature and serve staggered six-year terms.

ARTICLE 3 Qualifications for Board membership

To be qualified, private-sector Board members must demonstrate professional experience and/or education in one or more of the following areas: project design, financing, construction, or operation of major infrastructure projects.

ARTICLE 4 Method of Operation

The Alaska Development Board must approach its mandate as described in this statute based upon professional and economic criteria, unswayed by political and regional pressures. The Board must take a statewide perspective in determining priorities. The Board must review all projects suggested to them but must pursue only those which best represent the intent of this Statute.

ARTICLE 5 Work of the Board

The Board must research the feasibility of in-state, revenue generating projects. They must recommend only those which, if constructed, will have the capacity to return the State's investment, cover operating and maintenance costs, and help strengthen and diversify Alaska's economic base.

Legislation #2

ARTICLE 6 Staff

The Board shall name an Executive Director who will be funded along with a limited staff. The Governor will provide additional support when needed from appropriate administrative departments, especially the Departments of Transportation and Public Facilities, Natural Resources, and Environmental Conservation. The budget for staff and support assistance will be derived from earnings of the Alaska Development Fund.

LEGISLATION DRAFT #3
THE ALASKA DEVELOPMENT FUND

Findings:

The Legislature finds that the diversification of the state's economy depends on the construction of major infrastructure projects which can assist the private sector with its development and transportation activities. The Alaska Development Fund will be a source of financing for these projects.

ARTICLE 1. Source of Funds

The Legislature shall deposit in the Alaska Development Fund a one-time start up amount of $ which will be increased as deemed appropriate by future circumstances.

ARTICLE 2. Management of the Funds

When not in use for the projects described herein, monies deposited in the Alaska Development Fund will be invested and earnings retained. The Trustees of the Permanent Fund will manage the savings and investment activities of the Alaska Development Fund.

ARTICLE 3. Use of monies in the Fund

Only the Legislature, with concurrence of the Governor, can appropriate monies from the Alaska Development Fund for projects recommended by the Alaska Development Board.

ARTICLE 4 A Revolving Fund

Appropriations from the Alaska Development Fund will be made only to those projects that have the capacity to return the State's investment. Interest rates, if charged, will be determined by the Legislature upon recommendation of the Alaska Development Board. These rates need not match market rates; rather, they should be designed according to the revenue-generating capacity of the project.

ARTICLE 5 Notice to the Public

Although this Fund is not dedicated or mandated by the Constitution, this Statute requires that, if the Legislature or the Governor contemplate utilizing monies from the Alaska Development Fund for any other purpose besides those described in this Statute, broad public disclosure including public hearings must occur.



Harold Heinze, Co-Chairman
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REPORT TO

ALASKA'S ECONOMIC LEADERS

JUNE 1987

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The conclusions in this report are those of the Alaska State Chamber of Commerce Commission on Strategic Planning for the 1990's.

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INTRODUCTION

The Commissioners

The sixteen Commissioners included:

- Harold Heinze, Co-Chairman, ARCO Alaska, Anchorage
- Peter McDowell, Co-Chairman, Juneau
- Janna Brattain, Merrill Lynch, Pierce, Fenner & Smith, Inc., Anchorage
- Julius Brecht, Wohlforth, Flint & Gruening, Anchorage
- George Easley, Alaska Aggregate Corporation, Anchorage
- David Gottstein, J. B. Gottstein, Anchorage
- Roy Huhndorf, Cook Inlet Region, Inc., Anchorage
- Don Langworthy, IBM, Anchorage
- Al Parrish, Westmark Hotels, Anchorage
- Dr. Walter Soboleff, Sealaska Corporation, Tenakee Springs
- Morris Thompson, Doyon, Ltd., Fairbanks
- Joe Usibelli, Usibelli Coal Mine Co., Healy
- Richard Wien, Florcraft, Inc., Fairbanks
- Gary Wilken (alternate), Wilken-Alaska, Inc., Fairbanks
- Bob Williams, Chevron USA Inc., Kenai
- Mary Willis, Humana Hospital, Anchorage

The Commissioners were also joined by seven observers, including:

- Robert Atwood, Anchorage Times, Anchorage
- Al Fleetwood, Enserch Alaska Services, Inc., Anchorage
- Mark Hazelwood, ARCO Alaska, Anchorage
- Francis Hurley, Archdiocese of Anchorage
- George Krusz, Alaska State Chamber of Commerce, Juneau
- Byron Mallott, Sealaska Corporation, Juneau
- Sally Smith, Alaska State Chamber of Commerce, Anchorage

The Mission

In November 1985, the Commission adopted the following Mission Statement:

"The charge to the Commission is to build a statewide coalition of thoughtful Alaskan economic leaders to identify and consider the implications and opportunities of the major social, political, and economic issues facing Alaska into the 1990's.

The Commission will develop and communicate a framework and unified strategies for the Alaskan political economy that draw strength from our abilities and highlight our common concerns.

Recognizing that:

- We have accumulated a permanent fund of intellectual capital more than adequate to the task at hand.

- Diversity of economic forms, cultures, and governance institutions is necessary so capitalism may thrive.

- It is important to draw upon all elements of the Alaskan private sector in identifying and achieving common goals.

- Alaskans traditionally reject monolithic solutions in favor of maximum self-determination.

- There is a social responsibility dimension to the economy that must be considered."

Purpose of a Strategy

Alaska needs an economic framework and strategies to:

* **Keep abreast of changing economic conditions**
* **Account for conditions unique to the state**
* **Set priorities among the numerous State and local government actions that are important to economic performance**
* **Identify and curb actions harmful to economic progress**
* **Coordinate related actions that have economic impact.**

A strategy does not imply the development of detailed plans nor a presumption to direct the activities of the private sector. To the contrary, a strategy is important for assuring the development of a market-driven and competitive economy.

The Methodology

In the summer of 1985, Alaska State Chamber of Commerce Chairman Al Fleetwood established the Commission on Strategic Planning for the 1990's. Now, two years later, after numerous meetings, teleconferences, letters and memoranda, and review of volumes of material, the Commission has prepared its findings and action recommendations.

The charge of the Commission is to build a STATEWIDE coalition of thoughtful -- and thought-provoking -- Alaskan economic leaders. The goal of the coalition is to study the implications and opportunities of the major socio-political and economic forces which are affecting the Alaskan economy today and will be facing the Alaskan economy into the 1990's.

Toward that end, the Commission's co-chairmen, Harold Heinze and Peter McDowell, recruited representatives of major industries with diverse philosophical perspectives from various geographic regions throughout Alaska.

Each member of the Commission explained his or her industry and the factors for success in that industry. Members also prepared work products which included issue papers and factors for success background papers on the basic and secondary economic sectors affecting the Alaskan economy and the strategies for development which the Commission identified.

Because the Commission recognized that business people simply do not have the time to go through a long, traditional strategic planning exercise, they decided the end-product should be reduced to its essence ... a simple idea or framework that everyone could understand. They decided that it would not be useful to create a 'big plan' for business or the State of Alaska. The goal became the creation of a framework -- simple, adaptable to various regions, situations and specific local conditions. This framework they christened the "Export Model of the Alaskan Economy."

THE FRAMEWORK: An Economic Model for the Alaskan Economy

When the State Chamber started the Commission on Strategic Planning in 1985, they felt that what would be of most use on a statewide basis was to provide a framework to businesses (and governments) for strategic planning. This framework had to come from the "free enterprise, business perspective." The

result was the "Export Model of the Alaskan Economy."

The Commission reached consensus on its major conclusion: that an 'export model' is the approach which best facilitates evaluation of the Alaskan economy. Business sectors which primarily bring cash IN to the state (as opposed to sending cash outside the state or churning it within the state) would be part of the Export Model.

If a business understands its position in its local market relative to the Model, it will more easily be able to identify strategic decisions that will be required to remain competitive and profitable. Thus, the Model can become a stimulus for economic development.

Some Definitions

What we are talking about in economic terms is an "economic base analysis." An economic base analysis identifies the key economic activities of a community/region/state/nation. It divides the local economy into two segments:

(1) Firms and individuals serving export markets;
(2) Firms and individuals serving markets internal to the local economy.

The goods and services which the community sells outside its boundaries are considered exports. Exports include ALL sales made outside the community, not just trade with foreign nations. The remaining goods and services serve the local market. Local would be defined as the geographic region being studied.

In this division of markets, there is a cause and effect relationship. Export markets are considered to be the prime mover of the local economy. If employment serving this market rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid-off workers have less to spend ... or leave that local economy. Because of the prime mover role, export sector economic activity is considered as "basic." Employment which serves the local market is considered adaptive and is called "secondary."

Basic economic activity drives secondary economic activity usually in the same relative proportions over time. A change in basic activity will eventually produce a proportionate change in secondary activity.

Why Exports?

Exports help the Alaskan economy to grow. Exporters with big payrolls make it grow proportionately faster than exporters with smaller payrolls ... because large "basic sector" projects tend to cause more activity in the secondary (service) sectors of the economy -- as described earlier.

Jobs not tied directly to exports are important, of course. The more goods and services available in-state, the lower the leakage of purchasing power from the economy. This growth in

such "support" sector jobs is, however, severely constrained by growth in the export sector ... the lower the exports ... the lower the level of support required.

In the recent past, Alaska had a large export surplus mainly because of Prudhoe Bay ... now that has changed. The wellhead value of the oil industry contribution to net exports has fallen by two-thirds from 1985 ($12 billion) to 1986 ($4 billion).

Export/basic sector projects have a "multiplier" effect. They create more jobs in total than those related to the basic industry project. A job at a new defense installation, for example, will set off a chain of transactions that results in one or two other jobs being created in trade, services, or other support industries.

Alaska needs all the export projects it can get. Size of the enterprise is not so much the issue, but rather its viability. This will require better analysis ... to see where in the Alaskan economy a particular venture fits. Thus, the Commission suggests the Export Model as the initial framework to analyze the economics of projects, communities, regions and the state as a whole.

PRIMARY/BASIC EXPORT SECTORS

The basic export sectors playing the prime mover role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel/tourism, national defense, federal civilian services, and the permanent fund dividend.

The following table depicts the Export Model summarizing the Alaskan economy in 1986. The Commission estimated the gross values of "exports" from the state for the basic sectors.

The gross value of oil and gas declined from $12 Billion in 1985 to $4 Billion in 1986. Oil is almost two-thirds the value of total exports ... even after the drastic drop in the price of oil from 1985 to 1986. Looking at the change in that one number for oil and gas, however, makes clear what has been happening in the Alaskan economy.

The value of fish caught by resident fishermen in Alaskan waters in 1986 is estimated to be $300 million. Research indicates that an additional $600 million goes to fishermen from other states.

The dollars generated from timber are estimated to be about $200 million, primarily from round log, pulp, cant and heavy timber exports to East Asian markets.

The minerals number of $100 million may be slightly high as placer miners were severely affected by environmental regulations in 1986.

Coal, at $25 million primarily represents coal exports to Korea.

The travel/tourism figure, estimated at over $500 million for 1986 (excluding transportation to and from Alaska), is interesting because of potential growth -- and that it represents only three months of activity.

"EXPORT MODEL"
Of The Alaskan Economy
1986

		Millions
Oil And Gas		$4,000
Fishing		300
Timber		200
Minerals		100
Coal		25
Travel/Tourism		500
Defense	1,600	
Other Federal	1,300	
	2,900	
Less Federal Taxes	2,000	900
Permanent Fund Dividend		300
Total Estimated Value		$6,325

Defense and the federal civilian sectors have definite growth potential due to Alaska's unique geopolitical situation, its remoteness, other natural features, and abundant public domain. Defense spending in Alaska is about $1.6 billion. Other federal spending is about $1.3 billion, for a total of approximately $2.9 billion. Federal taxes paid by Alaskans were estimated to be about $2 billion, leaving a residual of $900 million contributed by the federal government to the state.

All dollar values are "wellhead," "ex-vessel" or "point-of-production" numbers. Travel/tourism, the permanent fund dividend, and federal government expenditures, while not true exports in the technical sense of the word, were considered such because of their capacities to bring wealth into the state. The 1986 Permanent Fund Dividend, estimated at $300 million, was initially excluded. The decision was made to add the Permanent Fund Dividend into the model as the dividends do represent net dollars flowing INTO the state (although not directly from a basic economic industry).

SECONDARY SERVICE/SUPPORT SECTORS

The Commission identified transportation, world markets/international trade, private retail and wholesale trade and services, state government services, transportation and construction services, and local government services as the essential secondary sectors active in the Alaskan economy. These industries are often the "facilitators" or "conditions precedent" which make the importation of wealth possible. Transportation is

a good case in point. While transportation does not directly generate wealth, it does facilitate the importation of wealth and does have the effect of increasing wealth.

Transportation and Construction

After careful analysis and discussion, the Commission agreed that the transportation and construction industries per se are not importers of wealth to Alaska. Rather, they provide services to the other segments of the Alaskan economy. Under this premise, economic activity related to transportation and construction is an "effect" caused by other wealth generating activities or opportunities and not a "cause" in itself.

World Markets/International Trade

The effects of the globalization of the U.S. economy are felt with varying degrees of intensity in different states and regions. For example, states that depended on resource industries such as timber in Washington and Oregon, and copper in Montana and Arizona, found their economic mainstays drastically diminished or lost to foreign producers in the 1970's. These economies are just now beginning to turn around.

Farm states have been badly hurt by lagging exports, due in part to unfavorable exchange rates -- some of which may be improving. Most recently, since the beginning of 1986, the drop in oil prices has severely affected Texas, Oklahoma, Louisiana, and other oil-producing states.

What does this mean for Alaska? World markets are volatile and subject to rapid change. The natural resource (basic) sectors which fuel our economic engine are primarily dependent on the unpredictability of the world economy and world politics. This means that awareness of these interdependencies is key to economic success in Alaska.

There is economic opportunity in changing international markets. For example, the travel/tourism industry has identified over 600,000 tourists in Japan and 400,000 tourists in Germany who would be interested in coming to Alaska in the next five years. The challenge now is how to reach those markets.

Similarly, the Alaskan commercial fishing, mining, and timber industries can benefit from knowledge of their foreign markets' changing demands. New business concepts need to encompass worldwide market strategies for the 1980's and 1990's. Some of these might include:

* Finding approaches for gaining access to rapidly growing markets -- whether in computer software, hardware, telecommunications, or commercial fishing.

* Adjusting expectations to realistically lower levels of expected return in high-potential growth markets, in order to establish market share, compete and maintain long-term capital/cash flows.

* Targeting key country markets in several geographic regions (including the U.S., Europe, Japan, and the rest of Asia) for market entry, growth and cash flow, as well as to control the share and cash flow of key competitors.

* Creating new business tools to deal with currency fluctuation, exchange risks, and countertrade.

* Developing joint venture, trade or direct investment opportunities in foreign business climates.

State and Local Government

In some regions and communities State and local government services are considered part of the basic/primary economic sectors. They actually may be a "basic" sector in a community such as Seward -- which has a large proportion of its "export" dollars attributable to State government. However, for the purposes of developing a framework from which to view the STATEWIDE Alaskan economy, the Commission felt they are clearly secondary economic sectors -- in that they do not provide the basic "fuel" for the economic engine. For example, 85 percent of the revenues of the State of Alaska were generated by the oil and gas industry during the early 1980's. If economic activity did not occur in the oil and gas sector, there would be considerably less State government services.

STRATEGIES FOR DEVELOPMENT

As explained in the earlier description of how the 'Export Model' works, just as a basic sector industry creates jobs ... declines in such industries result in job loss. By mid-1986, lower oil prices were projected to require cuts in State government expenditures, which included reducing state employment. These cuts in the secondary government economic sector, in turn, result in losses in other secondary industries.

It is critical that Alaska's economic leaders act now to reverse this trend of job losses. No single major economic event is on the immediate horizon to rescue the state in the near term.

What will be required is economic leadership, prioritization and analysis of opportunities, and most importantly, the courage to act now to safeguard the economic future of Alaska. Toward that end, the Commission has developed several "Strategies for Development" for immediate action.

Perhaps the most important work of the Commission was the identification of these "Strategies for Development." The Commission felt it essential to focus on new directions for economic growth and diversification ... as well as to provide continued support for the existing basic economic sectors currently being pursued -- such as tourism and the natural resource industries. (The current basic sectors are important -- but the Commission was also interested in a new focus on areas of economic potential which may have been overlooked).

Six strategies were identified. In addition to the overall strategy of continued support for all the existing basic sectors, the "Strategies for Development" also include three development alternatives which aim at expanding the export sectors of the Alaska economy -- as defined by the Model. The export sector priorities identified are high technology and software development, increasing the national defense presence in Alaska, and the expansion of Alaskan participation in the growth and Americanization of the commercial fisheries off the coast of Alaska. The other two strategies for development identified are

primarily import substitution alternatives. Their objective is to reduce the leakage of insurance premium and financial investment servicing dollars outside of the state of Alaska.

Continued Support for Existing Basic Sectors

Alaska has a resource-based economy. The Commission recommends continued support of the other basic sectors identified as strengths in the Export Model: coal, minerals, oil and gas, timber, and travel/tourism.

By suggesting additional strategies, the Commission does not imply that resources in terms of finance or personnel should be removed from existing economic developments which are cost-effective and producing positive results. On the contrary, the Commission supports continuation of programs such as the one developed for the travel/tourism industry. The State needs to put its economic investment dollars in viable programs which have the highest potential success rate as well as highest potential return on the investment. The Commission supports and encourages development initiatives at the local and regional level in Alaska, especially those like the pursuit of the 1994 Winter Olympics.

High Technology/Software Development

A 1983 survey by the Congressional Office of Technology Assessment found 150 programs in 22 states designed to promote

technology as a major sector of the state's economy. By 1985, 40 states reported initiatives in this area. These initiatives cover a wide range of activities from investing in applied research and development to providing financing for new product development and management assistance to fledgling entrepreneurs.

What is "High Technology?" One definition is "adding more mind power than muscle power to a product." The Commission developed a partial list of types of industries which could fit this category. These include:

Arctic Science

Bio-Technology

Electronic Design and Assembly

Renewable Energy

Software Development

Telecommunications

From this list, the Commission selected software development as one industry which has high potential as a viable development initiative for Alaska.

Current characteristics of the software industry make it an attractive economic development target. The market is being driven by rapidly changing electronic capabilities -- existing now and in the research stages. Other positive software industry features include inverse price/performance ratios, an expanding number of users, expanding number of networks, massive parallel systems, and break-throughs in artificial intelligence and robotics.

Most importantly, the compound growth rate (CGR) for

software sales estimated through 1995 is 18.5 percent, second only to telecommunications. The actual 1985 total industry revenues for systems and application software worldwide was $13.6 billion. This market is expected to grow to $43.6 billion by 1991, with an estimated CGR of 21 percent. If Alaskans were to capture even one-half of one percent of this market, the gross revenues would be over $200 million.

The following are other market characteristics:

* 15,000 vendors in 1985
* 15 companies produced over $100 million in revenues
* Lotus posted $226,000,000 in 1985 revenue [a firm not even in existence in 1980]
* Protected intellectual property
* High margin products
* Low start-up costs
* Key factor for success: creative ideas, not "next to market access"

Other states are aggressively pursuing this strategy for development:

NORTH CAROLINA has established five technology centers, distributed throughout the state. They started early, offer a certain lifestyle, favorable tax laws, and a work ethic attitude. In addition, they formed a partnership between higher education, government, and the private sector to push the program.

MASSACHUSETTS AND NEW YORK offer special credits for research and development, real property tax reduction, and small business advisory assistance through the state college systems. They also provide financing for software start-ups through their

"Business Development Corporations," and loans from state pension funds.

ILLINOIS provides inexpensive office space, grants and seed money, and has established the Illinois Venture Fund and Illinois Technology Centers.

HAWAII started their technology development program about three years ago. The plan was to break ground in 1986 for three "high-technology" parks. Also, a high-tech center was planned for the University of Hawaii -- promoting 10 high-tech disciplines. Other assets include lifestyle and geography.

Strategy for Success

HOW CAN ALASKA COMPETE? First, Alaska can offer incentives for software start-ups to locate in Alaska. These would include real property (possibly free state or municipal land ... for a certain lease period), loans, and/or credits. The credits would be to encourage investment and research and development -- aiming at attracting companies committed to Alaska for the long-run. Tax incentives could include eliminating the "unitary" tax.

The most common structure for administering a state technology development program is a joint public/private body that includes representatives of the university and private business communities as well as the government. The organizations can be established as independent public agencies, private non-profit corporations, or may act in an advisory capacity to existing state agencies.

Two types of structures could provide the impetus for development of the software industry in Alaska. The first, "Software Development Technology Center(s)," housed at the University of Alaska, would be a vehicle for conducting research, and to create a reservoir of basic technological knowledge and human expertise needed for future entrepreneurial vitality. Such centers can be designed to attract new businesses, to encourage the creation of new firms through the spin-off of new products, or to help solve the technological problems of existing businesses.

The second, an "Alaskan Software Development Corporation" could be set up to develop incentives, draft required legislation, procure funds, and administer the program.

Attracting More National Defense Installations

The objective of this strategy for development would be to expand the military presence in Alaska by establishing a formal mechanism for promoting new Department of Defense (DOD) installations in Alaska.

The Air Force, Army, Navy, Marines, Air National Guard, Army National Guard, Reserves, U. S. Coast Guard, and the Corps of Engineers have a significant impact on the state of Alaska. As indicated earlier, their total contribution to export dollars was estimated to be $1.6 billion in 1986.

Manned installations of DOD and the U. S. Coast Guard are established at more than 30 locations throughout the State. There are very large bases with several thousand people and

numerous outposts with fewer than 100. In addition, there are a large number of installations, such as radio relay sites, which are not staffed on a regular basis. Due to limited living accommodations at many remote and isolated locations, assigned personnel are often not accompanied by their families. In locations where community housing is available, members of the military are accompanied by their families.

As of September 1985, the military labor force and employment totaled approximately 30,000. This number translated to a total services population of over 80,000 -- about 16 percent of the State total -- including retirees, inactive duty personnel, and dependents.

The existing military installations are shown on the following map.

Strategy for Success

HOW CAN ALASKA COMPETE FOR DOD DOLLARS? Alaska has a strong military tradition and unique geopolitical defense position -- considering its proximity to the Soviet Union and that the Soviet fleet is the largest in the world.

The State needs to, first, identify defense projects which are compatible with Alaska's needs and which meet needs of the DOD. Examples might include (1) security/privacy needs -- easily supplied by Alaskan communities' remote locations, (2) transportation infrastructure, and (3) electric power, which would also meet Alaskan goals and objectives.

PRIMARY MILITARY INSTALLATIONS IN ALASKA

BY REGION



Secondly, the State needs to present a written proposal explaining how Alaska can meet DOD requirements for "XYZ project." This approach fits with the Pentagon mode of operation of responding to -- not generating -- proposals. Alaska needs to be SOLD as a "site." To facilitate new projects the State could offer incentives to DOD in the form of land (free, or on a long-term lease), or providing matching funds (at a minimum) for road and/or power line improvements.

What kinds of projects are suggested? Several current projects provide a preview. For example, the 6th Light Infantry Division is adding 3,700 jobs and $500 million to the economy. The Backscatter over-the-horizon radar project will add $450 million and 500 jobs. Dew Line upgrades are worth an additional $100 million. The Acoustic Measuring Range near Ketchikan will add 40 jobs and $20 million.

Potential projects could include underwater communication, "cold" storage dispersal, getting on the "Port of Call" list -- which can bring in up to $1 million/day for every day in port, and/or having Kodiak, Dutch Harbor, or Barrow become designated as an "Arctic Port" for the Pacific Navy.

Alaska needs to build on its strengths. A key geopolitical location, a strong military tradition, and an available pool of recently retired high-ranking military personnel make this initiative workable. The State needs an ambassador/lobbyist to the DOD who has a strong service record, preferably a staff-ranked officer, who stayed in Alaska out of a liking for the state.

There are various ways that this could work. One suggested by the Commission is to appoint an ambassador to the Department of Defense. An "Ambassador" and staff could be stationed in the Pentagon -- assessing DOD needs and developing proposals, which would be presented to the Governor. The Commission felt it important that an ambassador have the clear backing of the Governor ... and report to Juneau through the Office of the Governor.

Expansion of Alaskan Participation in the Americanization of Commercial Fisheries

According to the State of Alaska and the North Pacific Fisheries Management Council, fish caught in Alaskan waters in 1986 were valued at approximately $890 million. Experts now predict that the Bering Sea bottomfishery alone may yield $500 million in domestic revenues for 1987. The opportunity is there.

The table on the following page details the value of Alaskan commercial fisheries (in millions of dollars) to resident and nonresident fishermen from 1976 through 1986.

If Alaskans were able to capture a larger portion of the harvest and of the value-added processing, the Alaskan economy could increase its basic sector substantially.

The Commission defined the objectives for expansion of Alaskan participation in the growth and Americanization of the fisheries off the Alaskan coast as two-fold:

(1) Optimize the harvest in Coastal Zone waters
(2) Obtain greater in-state share of fishery resources.

The Value of Alaska's Commercial Fisheries to Resident and Non-resident Fishermen
($ millions)

Species	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Salmon	119.7	176.4	241.2	346.8	254.1	397.3	309.7	320.2	343.1	389.0	404.0
Shellfish	97.3	153.2	230.6	239.0	265.3	196.9	211.7	146.6	102.1	106.3	186.4
Halibut	20.5	17.6	23.4	32.9	13.5	19.3	24.9	35.3	24.9	40.3	63.2
Herring	2.5	2.7	7.2	32.7	12.2	18.6	20.2	28.9	19.8	38.0	38.5
Groundfish	1.1	1.6	3.3	6.3	8.9	24.0	40.9	78.0*	107.2*	137.5*	197.9*
All Commercial Fisheries	241.1	351.5	505.7	657.7	554.0	656.1	607.4	609.0	597.1	711.1	890.0

1985 and 1986 data preliminary estimates.

* 1983, 1984, 1985, and 1986 groundfish include J.V.[1] and D.A.P.[2] landings, in and out of Alaska.

Source: Informational Pamphlet, Alaska Department of Fish and Game, February, 1987.

1 J.V. = Joint Venture
2 D. A.P. = Domestic Annual Processing

Strategy for Success

The Commission identified key factors for success in realizing these objectives: knowledge, focused insight (such as that resident in Washington state and Japan), vessel support and fish processing facilities, adequate Alaskan ports and processors to serve industry needs, and a degree of regulatory stability.

Specific areas for action which the Commission suggests are as follows:

(1) Develop knowledge and insight with detailed study of Alaska's present position and future potential including:

- --Direct dollar benefit by region (in-state and out) of vessel harvest value, wholesale value and market value for each type of fishery.
- --Indirect dollar benefit by region (in-state and out) of fishing fleet support, processing and product storage facilities.

(2) Develop the in-state fleet through favorable regulation.

- --Harvest quotas that encourage fresh market prices and local home ports.
- --Biologically based harvest management to lengthen seasons where possible.
- --Resolve salmon, crab, and white fish conflicts to unite the local fleet.
- --Rebuild the share of Alaskan Native and non-Native permit holders.
  - -Consider modifications to fishery permit system
  - -Consider state buy-back of some permits

(3) Develop in-state, onshore processing through improved competitiveness.

- --Identify factors for success that have resulted in processing growth outside Alaska.
- --Utilize fish tax investment credits as incentives.

--Prioritize projects that reduce energy and cold storage costs.

--Define the type and level of technical and research support needed.

(4) Develop adequate harbor and vessel service facilities.

--Use state lands to increase the capability of ports to fuel and supply vessels.

--Improve dry docks and haul-out rails for in-state vessel maintenance and repairs.

(5) Develop the Alaska Board of Fish as the agency to define the optimal fishery harvest levels and to define the State's role in mariculture, fish farming and ranching.

--Increase the biological expertise on the Board with appointments of fishery experts with no direct fishing interest.

The Insurance Industry

For 1986, the estimate of total insurance premiums paid by Alaskans was over $650 million. Of this, between $450 and $550 million came back to Alaska for claims and the remainder must be considered "leakage" to economies outside of Alaska.

The Commission identified this leakage as an opportunity for import substitution. Of the 1004 companies authorized to sell insurance in the state, 989 were "foreign" (not Alaska-based) and 15 were domestic. Although it may be difficult to capture all of the "leakage" due to the nature of the insurance industry, there appears to be some room for growth.

For example in 1985, the health care bill for the state was estimated to be about $1.3 billion. Although the data is sketchy and hard to obtain, at present it appears that Alaska spends about $500 million in State and federal tax dollars for

health care services. Another $800 million is paid for by insurance and private individuals. Information about the proportion of insurance premiums paid to out-of-state companies relative to the total claims paid to Alaskan health care providers is not available for recent years. A 1982 study, however, revealed a net excess of health insurance premiums over amounts paid of about $40 million, or twenty-one percent of the total premiums paid.

Strategy for Success

Economic leaders need to investigate the dimensions of this leakage of insurance premium dollars, estimated to be $100 - 200 million. Then, they must identify potentially viable strategies for keeping the insurance premium dollars in the state.

The Investment Industry

Like the insurance industry, the main challenge with the investment industry opportunity is that the portion of investment dollars being managed outside of Alaska is unknown. The estimate of dollars available for investment ranges from $25 to $40 billion. The largest pools of available dollars include:

-- The Permanent Fund
-- The Teachers Retirement System
-- The Public Employees Retirement System
-- Corporate pension funds
-- Union pension funds
-- Local government funds
-- Investments in local banks, savings and loans, credit unions, insurance companies, and brokerage firms.

If Alaskan brokers and investment advisors were to collect one quarter of one percent for investing $25 billion (or $40 billion) -- the value to the Alaskan economy generated from the investment industry could be $60 million (or $100 million).

Strategy for Success

These objectives could be partly accomplished by "gentle nudging" on the part of institutional investors ... such as administrators of the Permanent Fund and pension funds. As a matter of policy, fund administrators could only do business with investment firms which kept active Alaskan offices capable of providing competitive service to their accounts. Also, the Legislature could enact statutory incentives regarding the investment of public funds.

ACTION ITEMS/IMPLEMENTATION

The next phase of the Strategic Planning Commission's work focuses on communication. This phase includes taking this report "public" in town meetings with business and government leaders throughout the State. These include:

-- local Chambers of Commerce statewide

-- service clubs and other forums.

The emphasis of these local presentations will be on how each local community can evaluate its own economy using the "Export Model" and the "Strategies for Development." Each community and region should create its own development initiatives and priorities.

Finally, since its mission is to involve key Alaskan economic thinkers and leaders in the planning process, the Commission offers the following "Economic Leadership Checklist."

Economic Leadership Checklist

The Commission urges Alaska's economic leaders to:

- Educate Alaska's people, especially the children, because they are the greatest resource;
- Recognize the importance of the Alaskan political economy to other facets of life in the state;
- Become educated about the nature of economic change in the world and its effect on Alaska;
- Insist on sound diagnosis as a foundation for economic strategy;
- Require that economic development programs be monitored and periodically evaluated to assure public accountability and necessary adjustments;
- Participate in shaping a vision of Alaska's economic future;
- Identify actions compatible with that vision and motivate people to undertake them; and,
- Join with the State Chamber of Commerce in a statewide partnership to provide the leadership for economic expansion and diversification.

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APPENDIX "A"

Analysis of Balance Sheet
6/30/87

INVESTMENTS

Restricted	$ 55,284,432
Unrestricted	$223,044,730

The restricted category is comprised of funds that are specifically pledged or obligated for various bond issues. Included in this category are the Capital Reserve funds, Bond Sale funds, Loan Collections, Escrowed Bond Sale, remittances, etc. These funds are held by the various bond trustees.

The unrestricted category are general funds of the Authority that are not specifically pledged to any particular bond issue but which in addition to the loans comprise the bulk of the general assets of the Authority. The majority of these funds are invested in U.S. obligations or agencies or instrumentality of the U.S. in maturities of one year or less.

LOANS

Total	$329,070,910
Less allowance	10,173,101
NET	$318,897,809

95% of total $ in real estate 50% in Arch.

Composition of loans

Appropriated & Purchased	549	$ 75,353,222
Federally Guaranteed	63	11,278,600
Bond Sale	396	242,439,088
	1,008	$329,070,910

Bond Sale Delinquency as of 10/31/87

# loans	Principal	30 Days	60 Days	90 Days +
377	$229,997,223	(14) 3.05% $7.0 million	(5) 1.24% $2.9 million	(69) 22.5% $51.9 million

Total Delinquent

88 26.8% $61.8 million

OREO as of 6/30/87 — 11/30/87

$8,797,589 — $10m

does not get a current appraisal / does not have to but the loans must get an appraisal

Liabilities as of 6/30/87

Bonds Payable	$252,720,225
Average Annual Debt Service	$33.0 million/per year

Income Statement Notes
6/30/86

	87	86	85
Total Revenues	$ 48,359,225	$ 54,959,810	$ 51,812,352
Total Expense	34,882,482	26,084,609	22,060,125
Total Earnings	13,476,743	28,875,201	29,752,227
R.E. End of Period	$157,625,213	$144,148,470	$115,273,269

22 Bond issues out. G.O. full faith & credit of authority

Vast majority are non-callable until 1994-97 not allowed to be refundable 10 yrs

10-22 can be called with a pre-pay only.

Municipality of Anchorage

POUCH 6-650
ANCHORAGE, ALASKA 99502-0650
(907) 264-4311

December 17, 1987

Anchorage Legislative Caucus
Representative Virginia Collins, Chair
3111 "C" Street, Suite 150
Anchorage, Alaska 99503

Dear Representative Collins and Caucus Members:

My principal objective as Mayor of Anchorage will be to bolster the sagging economy. Capital projects are a crucial part of my effort; however, I would like to emphasize some other areas which I believe can aid the economy and which will require your assistance. Essentially, I am planning a stimulation program for our faltering economy. The list attached to this letter reflects my thinking on a potential program. I have presented these thoughts to the Municipal Assembly for their information and discussion. I now present it to you for your consideration.

I solicit your aid in our quest to get Alaska's economy back on its feet.

Respectfully,

Tom Fink
Mayor Elect

1 Enclosure

SUGGESTED LEGISLATIVE PROGRAM

1. A strong economic stimulation package consisting of the following as possible measures:

   a. Municipal Assistance in the amount of $100 million dollars at the rate of $200.00 per capita to each local government.

   b. A substantial capital improvement program not including buildings, but including deferred maintenance on buildings, and roads.

   c. A residential loan modification agreement through AHFC which would enable people to reduce their payments and the extra interest added onto the tail end of the loan.

   d. Tear down the old sub-standard ASBA buildings and ASBA buy new buildings from AHFC and give it a note until such time as ASBA gets federal money to do it.

   e. Commercial loan modification agreement at AIDA and the payments reduced and the interest added onto the tail end of the loan.

   f. A program to buy out some foreclosed mortgages of commercial properties such as Zamarello's strip malls at 1984 land values, and then boarding up or tearing down the buildings.

   g. An extra dividend.

   h. Legislation to authorize Bradley Lake to go forward without APUC's approval.

   i. Offer up to $100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.

   j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.

   k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.

   l. Pay off local government bonds.

   m. A Job Corps Program.

2. A $100,000,000 Capital Improvement Program for Anchorage, projects with a priority as shown on the Anchorage Capital Projects Priority List

   Last item -- 16 million for miscellaneous capital improvements.

Anchorage Legislative Issues

The Anchorage Assembly supports and encourages legislative consideration of the following issues:

Tax Incentives - Consider granting local communities the authority to offer various tax incentives to new and expanding business in the interest of spurring economic growth.

Note: Also endorsed by Alaska Municipal League (AML)

Binding Arbitration - Consider repealing the legislation requiring binding arbitration for local governments and their bargaining units.

Note: Also endorsed by AML

AS 47.37.170 (b) - Consider alteration of this statute to permit more local autonomy in dealing with the public inebriate problem.

School Funding - Consider legislation to facilitate identification and appropriation of school funding by the 15th of March each year.

Workman's Compensation - Review current workman's compensation statutes to assess impact on financial issues facing employers and propose alternative legislation to rectify the issues.

Business Liability - Review situation in local business communities regarding liability insurance and difficulty in obtaining such coverage, especially for small businesses. Propose legislation to aid in rectification of this difficulty.

Right to Bear Arms - Support a ballot proposition regarding Second Amendment rights.

EJG/17Dec87

Updated December 16, 1987

ANCHORAGE CAPITAL PROJECTS PRIORITY LIST

Rank	Name of Project	1988 $M	Anticipated Const. NTP	Design Study Report	Prelim Design	Final Design	ROW Acq	Construction	Notes		
1	Lake Otis Parkway, III (Tudor to Dowling) (AARP)	$ 2.5	1988	100	100	100	100	80	Electrical undergrounding, s/w bikepath & landscaping complete:	10/88	Awaiting Funds
2	Klatt Road (AARP) (Timberline to Southport)	$ 3.4	1988	100	100	100	100	50	Paving, curb & gutter, sidewalks, bikepath, lighting & landscaping complete:	10/88	Awaiting Funds
3	Spenard Road, II (AARP) (International to Turnagain)	$11.4	1988	100	100	20	5	--	Row acq. complete: Roadway complete: Landscaping complete:	3/88 10/88 8/89	Funded Awaiting Funds Awaiting Funds
4	ERRRSA Projects Hiland Rd. ($500K) Santa Maria Dr. ($850K), Hiland Bridge Ped. Walk ($450K)	$ 1.8	1988	100	100	10	-0-	--			
5	36th Avenue (AARP) (Arctic to Spenard)	$ 4.1	1988	100	100	100	50	--	ROW acq. complete: Roadway & landscaping complete:	5/88 10/88	Funded Awaiting Funds
6	East 6th Ave (Muldoon-Cherry) Edwards (DeBarr to Ptarmigan School)	$ 2.5	1988	100	100	10	--	--	E. 6th $2.0M - ready to let Edwards $450K - not designed		
7	Lake Otis Parkway, IV (66th to Abbott) (AARP)	$15.8	1988	100	100	100	5	--	ROW acq. complete: Roadway & landscaping complete	5/88 10/88	Awaiting Funds Awaiting Funds
8	Arctic Blvd. (AARP) (Raspberry to Dimond)	$ 3.5	1988	100	100	100	100	--	Roadway complete: Landscaping complete:	10/89 8/90	Awaiting Funds Awaiting Funds
9	Huffman Rd. (New Seward to Bragaw)	$ 3.5	1988	100	0	0	0	--	Bid pkg. ready by July, state project		
10	ERRRSA - Add'l projects Baranoff ($1.62M) Sullins Dr. ($390K) Klondike ($270K) Strip Paving ($900K)	$ 3.2	1988	100	100	10	0	--			

11	Spenard Road, III (AARP) (Turnagain to McRae)	$ 7.1	1989	100	100	--	--	--	ROW acq. complete: Roadway & landscaping complete:	3/89 10/89	Awaiting Funds Awaiting Funds
12	Dimond Blvd. (AARP) (New Seward to 88th)	$ 4.7	1989	100	--	--	--	--	Design complete: ROW acq. complete: Roadway complete: Landscaping complete:	10/88 7/89 10/89 8/90	Awaiting Funds Awaiting Funds Awaiting Funds Awaiting Funds
13	Lake Otis (O'Malley-Huffman) (2.8) and signalization at Huffman (.3)	$ 3.1	1988	0	0	0	0	--	Ready for ROW acq. in '88; potential private development under reimbursement plan		
14	West Northern Lights, II (Wisconsin to Aero) (AARP)	$ 5.6	1989	100	--	--	--	--	Design complete ROW acq. complete: Roadway complete: Landscaping complete:	10/88 7/89 10/89 8/90	Awaiting Funds Awaiting Funds Awaiting Funds Awaiting Funds
15	ARDSA Rehab Projects	$ 4.0	1988	--	--	--	--	--	Implementation of 5-yr road improvement plan		
	TOTAL	$76.2									
16	Other road projects (attached)	$14.0									
	W. Northern Lights Blvd., I (Forest Park to Wisconsin)	($ 1.4)	--	100	100	100	100	99	Landscaping complete: Request transfer of residual funds to Spenard Road II.		

AARP = Anchorage Accelerated Roads Program
NTP = Notice to proceed
ROW = Right of way

ATTACHMENT TO ANCHORAGE
CAPITAL PROJECTS PRIORITY LIST

MUNICIPAL PROJECTS	Cost ($ Millions)
Hillside Drainage Plan, Phase II Study	.3
Hillside Drainage Plan, Phase I Implementation	2.0/5.0
Birch Road, Huffman to DeArmoun (extend South to DeArmoun Road) Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	1.7
Buffalo Street (extend South to Rabbit Creek Road and add Bridge) Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.2
Elmore Street (extend North from Riverton Avenue and add Bridge) Assume Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.3
Bragaw Street (extend south from Huffman Road to DeArmoun) Class 1C - Residential Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.5

EJG/16Dec87

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

Thank you for your invitation to attend last weeks discussion on the Alaskan economy. My understanding is that on Tuesday at 9:00 AM the group will meet again and you would like a brief overview of the current financial situation of the Authority. Additionally, myself and all others in attendance were to give some thought to what was discussed and present any ideas or alternatives that may help the economy in general.

My understanding is that the primary purpose of the group is to brainstorm and prepare ideas that may allow governmental intervention to assist the economy through some difficult times. Many individuals feel that the assets of the Authority could be useful in this effort and that an overview of the financial condition would allow a more reasoned analysis.

Attached as Appendix "A" is the Balance Sheet & Income Statement for the year ending 6/30/87. Following the statements, I have prepared a brief analysis of the composition of the balance sheet with particular emphasis in the asset side in which this group appears to have an interest.

At last weeks meeting, several points were raised that merit response. There seemed to be a general consensus around the table that AIDEA needs to respond more timely to work-out requests submitted by banks and needs to be a bit more liberal in its evaluation of these requests. Insofar as the timeliness is concerned, I agree that there have been times when a response has been slower than necessary. Internal steps have been taken to remedy the problem. On the liberalization side, I also agree that some of the criticism may be justified. It is significant that the Authority considers itself an in-state investor in bank originated loans and not a social service organization. It is also realistic to understand that on a 90/10 participa ion who really has assumed the risk and accordingly should have a considerable voice in determining the future events of that particular transaction. Nevertheless, steps are being taken to hopefully alleviated, at least to a degree, both of these concerns.

On to more important matters and the purpose of the gathering, the economy.

It appears the group was not overly impressed with my rather inarticulate mutterings on supply and demand. The majority of proposals distributed do not address these fundamentals and accordingly will not solve the problem. The proposals all are premised on the assumption of buying time and hopefully things will get better. This analysis ignores the possibility that a structural change has occurred within Alaska and that slow to moderate growth will might be the future, not the double digit growth that we've all grown accustom to.

What is occurring now is percisely free enterprise at its worst. It is eliminating the marginal producer in a very efficient matter. Once equilibrium is reached, the survivors will grow and prosper and those who made miscues or poor investment decisions will be finished. The lesson for the real estate speculator is simple, leverage is two sided.

The problem then is to alter the above relationship, hopefully in a form that recognizes some across the board public benefit, as it appears public funds are to be used. The Chairman has requested that we focus on the supply side and accordingly it appears to the author that to rationally gain access to the "public trough", a program that at least attempts to spread equally the gain and the pain be developed.

Demolish Alternative

I. Any financial institution, political subdivision, credit union, FDIC, may take property from their "OREO" account, sell it to the "Demolish Corp" for its current land value who is then mandated to destroy the improvements upon the land.

   A. Improvements must have existed upon the property prior to January 1, 1986.

   B. Improvements must be commensurate in size and character to the real property in question.

   C. Property must be vacant at time of purchase.

II. The "Demolish Corp" is prohibited by statute from selling any real property until _____, which time all proceeds are deposited in the _____ (General Fund?).

Analysis

1. Not feasible, no one will sell for merely land value.

   A. Perhaps not. Current OREO requires taxes, insurance and maintenance. If the structure is obsolete and the institution has already written off a portion. A sale for land value would stop the bleeding and allow immediate cash into the bank. Most likely the least desirable, must uneconomic projects would be candadates.

2. By requiring tenant removal prior to purchase, demand would be created by eliminating supply.

3. Who wins/Who loses??

   A. Tends to prop up property values if enough properties tendered. All property owners would benefit by the reduction in supply of like properties. (Includes commercial and residential).

   B. Removes property from the tax roles but increases values of the remaining property.

   C. Allows institutions to liquidate, receive cash and go on.

   D. Penalizes speculation

III. Moratorium on lending for new construction

A moratorium would be placed on AHFC, AIDEA, ASBA, Permanent Fund, etc. on providing funds for permanent financing for any new construction ~~subject to an override by the local governing body~~ within which the project is located. NB

The intent is to curtail new construction except when a local government feels their economy can absorb such new construction. Could put a sunset on it, say for three years, then the restriction falls away unless reinacted.

IV. Public Works - Jobs Bill

AIDH Dated a [illegible]
[illegible] Family [illegible]
Jackson, Clark [illegible], Not Se-
[illegible]

National Bank of Alaska

CORPORATE HEADQUARTERS • BOX 100600 • ANCHORAGE, ALASKA 99510-0600

ROBERT P. GRAY
PRESIDENT

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

It was refreshing and beneficial to have a candid meeting between you and representatives of some of the major financial insitutions in the State. It would be highly desirable if such interchanges of ideas should continue into the future.

On a general basis, we feel that the following represents some major economic realities in South Central Alaska:

1. There is an inbalance between supply and demand in the real estate area. This is largely caused by a gross oversupply of properties, particularly strip malls, condominiums and lots.

2. The real estate segment is the most adversely affected part of our economy.

3. Our economy suffers from tco much debt. This debt load needs to be worked down and, in some instances, renegotiated. It appears that additional debt would be, in general, counterproductive.

4. The mobile home program is a disaster and needs drastic solutions.

5. There is a general feeling of uncertainty in the marketplace which is causing customers and businesses to defer spending decisions.

6. There is a continuing tragic loss of good, highly qualified people from Alaska.

7. A stable banking environment (including State agencies) is necessary for an economic resurgence.

8. The present stituation will not allow a "quick-fix". Any such proposed solution should be judged very critically.

9. The banking industry unanimously expressed the opinion that they have an excellent working relationship with SBA. It would seem logical, therefore, that the SBA--banking relationship should be examined as a role model for a State agency - bank relationship.

10. The Alaska economy is uneven - some geographic areas are doing well (Kodiak, Ketchikan, etc.) while some are doing poorly (Wasilla, Anchorage, Kenai Peninsula). Specifically, there are actions that can be taken which we feel would be helpful.

    A. The State should not fund new building projects into areas of oversupply. Instead, it should look at buying some of that oversupply (at prices much below the cost of new construction) for such items as UAA dorms, ASHA low-income housing, etc.

    B. The legislature should alter or repeal the sections of the law setting a delinquency rate cap for individual banks. As it is presently enacted, if a bank exceeds that cap for that program, it is forbidden from participating further in the program. I understand AIDEA will be proposing a bill to rectify this.

    C. AIDEA should consider doing loans based on a guarantee (as does SBA) rather than direct funding. That guaranteed portion could then be sold to the Permanent Fund. The advantages of this approach are several:

        (1) The expensive bond underwriting costs are avoided.

        (2) Restrictive conditions that can be imposed by bond underwriters are avoided.

        (3) The Permanent Fund could acquire a large pool of Alaskan, good-yield, almost no-risk loans. By having these loans guaranteed by AIDEA, the Permanent Fund's prudent man rule would be met.

D. A change in composition of the AHFC and AIDEA boards toward more public representation would be helpful.

E. More cooperation and/or latitude is necessary in negotiating troubled commercial real estate loans with AIDEA. The comments by Mr. Cox were illustrative of tactics that could be useful.

F. The staffing needs of AHFC and AIDEA should be analyzed. Not only may they need more staff, the may need staff with different types of qualifications than the present staff have. In particular, AIDEA may need work-out specialists. AHFC probably is in need of operations/systems people.

G. The only solution I can see on mobile homes that would work is to move the homes from the glutted areas. If mobile homes were sold at very low prices, those customers that are presently paying on their homes may react precipitously.

In summary, most of the elements for the financial community are in place. However, the working relationships between the State agencies and the banks need to be improved if the customers are to receive efficient, timely and proper treatment. An AIDEA guarantee program seems to have merit. It could be used, for example, for a change of ownership in an existing property.

I hope these comments are of benefit.

Sincerely,

Robert P. Gray

Robert P. Gray
President

RPG:sl

National Bank of Alaska

Corporate Headquarters: P.O. Box 100600 • Anchorage, Alaska 99510-0600 • (907) 276-1132

December 24, 1987

Senator Jan Faiks
Alaska State Legislature
3111 C Street, Suite 525
Anchorage, AK 99503

Re: AIDEA Guaranteed Loan Program

Dear Senator Faiks:

I was requested to provide a model of a guaranteed loan program that could be utilized by AIDEA. I am enclosing a copy of an outline provided by the Bureau of Indian Affairs for their guaranteed loan program which I believe covers most of the bases. Of course the name of the agency would have to be changed as would the eligibility requirements of the borrowers. I would recommend that such a guaranteed loan program not allow for a guarantee exceeding 20 years. I would also suggest that the maximum interest rates on loans with guarantees in excess of 80% be limited to prime + 1 1/2%. On those loans with guarantees of 80% or lower the maximum interest rate should be limited to prime + 2 3/4%. The SBA and BIA limit the maximum interest rate to prime + 2 3/4% either floating or fixed.

I would also recommend consideration of the subsidy feature as outlined in paragraph ten of the BIA document on loans that are currently financed through state loans programs when refinanced with a guaranteed loan. This subsidy should be allowed in cases where it is proven that the project cannot carry the interest rate with the existing state agency, that the project will not support a market interest rate such as prime + 1 1/2% under a refinance program, and the state agency and participating bank would face an economic loss if they foreclosed on the property. Such an interest subsidy, I believe, should be limited to 3% and only for the length of time that the property demonstrates a need for the subsidy.

The loans should be allowed to be used by participating institutions as security for deposits and assignment by the banks for liquidity purposes. This could hopefully assist our weak banking system. You might also consider an annual legislative review of the amount of guarantees issued by the authority. For instance, allow AIDEA to guarantee up to $200 million in loans in the first year and every year thereafter establish a quota.

You were concerned about the banking community's support of such a program. Virtually every bank in the state that we have contacted, large and small, except for one, showed an interest in such a program. The other bank indicated that the state should get out of all lending activities.

NBA has participated in government guaranteed programs through SBA, Farmers Home Administration, business and industrial loan programs, the Bureau of Indian Affairs Guaranteed Loan Program and various home guaranteed loan programs. We have had good success in the operation of these guarantees. A guaranteed loan program allows the bank to structure loans around the needs of the consumer rather than in the current case of AIDEA's bond programs which has structured the loans to the needs of the bond underwriters. This has been very costly to the consumers and has provided restrictions that have caused substantial problems to consumers who relied on the expertise of this state authority to provide them with a program that would be reasonable to deal with.

We would also recommend AIDEA's consideration of the use of an equity participation program for problem work-out loans to reduce debt service to the consumer. Alternatively, a more flexible policy in reducing interest rates should be considered. If I can provide you with any additional advice in this regard, feel free to call upon me.

Sincerely yours,

J. K. Sieberts
Senior Vice President

js

cc: Rick Halford

FINANCIAL ASSISTANCE
Guaranteed Loans
GENERAL INFORMATION

Note: 25 CFR means Code of Federal Regulations, Title 25 (Indians)

1. **Purpose.** This supplement sets forth the types of loans eligible for guarantee pursuant to Title II of the Indian Financing Act of April 12, 1974 (88 Stat. 77, 25 U.S.C. 1461 et. seq.), and the Federal Regulations applicable thereto, 25 CFR 103, and the procedures for processing, approving and servicing such loans. The Act provides for guaranteeing up to 90% of a loan made by eligible lenders to Indians and Indian organizations. In addition the Act provides for paying an interest subsidy on such loans to reduce the rate of interest paid by the borrower to the cost of borrowing from the United States. The guaranty is subject to payment of a premium by the lender to the Bureau of Indian Affairs.

2. **Responsibility.** The full faith and credit of the United States Government, acting through the Commissioner of Indian Affairs, is responsible for all obligations entered into herein. Accordingly, Bureau employees have a responsibility to carefully review and analyze applications and supporting documents to assure compliance with the regulations and recommend or approve loans that indicate applicants have a reasonable prospect for repayment, based upon sound customary lending criteria. The Indian applicant has a responsibility and obligation to repay the amount borrowed, and the lender assumes the responsibility of servicing the loan adequately and effectively, exerting every reasonable means in default cases to assist the borrower against loss of his home, farm, or business. The Bureau of Indian Affairs, on behalf of the United States, must require that all parties fully discharge these responsibilities.

3. **Eligible Lender (25 CFR 103.9).** Those financial institutions subject to examination and supervision by an Agency of the United States, a State or the District of Columbia, having the capacity to evaluate, process, disburse and service loans and Indian tribes making loans from their own funds to other tribes or organization of Indians are eligible to have loans insured under these regulations. Loans may be guaranteed for any lender regularly engaged in making loans, having the capacity to accept and process applications and service loans, and who is satisfactory to the Commissioner.

4. **Eligible Organizations (25 CFR 103.7).** Loans to tribes and Indian organizations having a form of organization satisfactory to the Commissioner and recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible to be guaranteed when there is reasonable assurance of repayment of the loan.
   Cooperative associations, corporations and partnerships shall be organized pursuant to state, Federal or tribal law. Cooperative associations, corporations and partnerships applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a reservation must comply with the requirements of applicable rules, resolutions or ordinances enacted by the governing body of the tribe.

5. **Eligible Individuals (25 CFR 103.8).** Only Indians who are members of tribes recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible for guaranteed loans. Individuals applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a

G. Non-Taxable Interest Income. Loans may not be guaranteed where the interest income from the loans is not taxable income under Chapter 1 of the Internal Revenue Code of 1954, as amended.

H. Term Restrictions Loans with repayment terms exceeding 30 years may not be guaranteed.

I. Educational Loans. Loans for educational purposes are not eligible under the Guarantee Program.

8. Amount of Guaranty (25 CFR 103.13). The percentage of a loan to be guaranteed shall be the minimum necessary to obtain financing for an applicant, but may not exceed 90% of the unpaid principal and interest.

A. The liability under the guarantee shall increase or decrease with any increase or decrease in the unpaid principal of the obligation. Loans to individual Indians may not be guaranteed where the principal amount exceeds $350,000. Loans to individuals may not be guaranteed where the principal amount is less than $2,500 or where repayment terms are less than one year. An exception to these limits on time and amounts may be approved by the Commissioner.

B. Applications of minors as determined by applicable state and Federal laws, may not be approved unless the natural parents or legal guardians, with reputations of being responsible individuals, co-sign the promissory note(s) and securing documents.

C. Not more than one guaranteed loan may be in effect with the same borrower at any time without prior approval of the Commissioner.

9. Interest (25 CFR 103.41). Interest rates charged by lenders on guaranteed loans, exclusive of loan service charges, if any, shall not exceed such percent per annum on the principal obligation outstanding as the Commissioner determines to be reasonable and legal at the time a loan is guaranteed, taking into account the rates prevailing in the private market for similar loans and the risks assumed by the United States. Each loan shall show the rate of interest to be charged. Interest shall be payable at least annually. Once a loan is closed, the interest rate may not be increased even though the lender increases the rate on new loans. Lenders may not charge interest on loan funds used for payment of loan service charges.

10. Interest Subsidy (25 CFR 103.42). The Commissioner will pay an interest subsidy to lenders on loans which are guaranteed under 25 CFR 103 at rates which are necessary to reduce the interest rate payable by the borrowers to a rate determined in accordance with Title 1, Section 104, of the Indian Financing Act of 1974 (P.L. 93-262, 88 Stat. 77).

A. The rate of interest subsidy will be established by the Commissioner at the time of issuance of a guaranty certificate on loans requiring approval by the Commissioner, or at the time of approval of Form 5-4755, Request for Loan Guaranty and Approval. Interest subsidies paid to lenders by the United States on behalf of borrowers shall continue to be paid over the remaining life of the original term of a loan even if the lender elects to discontinue the guaranty or otherwise causes the termination of the guaranty by failure to make guaranty payments as required in #103.43. Interest subsidy payments by the United States shall be discontinued on such loans when one of the following occurs.

B. The initial premium on guaranteed loans shall be remitted, payable to the Bureau of Indian Affairs, to the Superintendent of the local Agency within 10 days of the advance of loan funds to the borrower. The premium shall be for the six months or portion of six months in which the loan is made. Thereafter, premiums will be paid as of June 30 and December 31 on the principal balance outstanding at the end of each semi-annual period. The guaranty or a new loan, or of additional advances on existing loans, will not be effective until the Commissioner receives the premium due.

The guarantee of a loan shall cease to be effective if the premium is not remitted within 30 days of the close of the semi-annual period.

13. **Loan Servicing (25CFR 103.46).** The guaranty of a loan by the Commissioner will be based on the requirement that adequate loan servicing will be performed by the lender. Loan servicing will be without cost to the borrower, unless the Commissioner authorizes a charge at the time the loan is made pursuant to #103.44. Authorizations for such charges shall be in writing and included in the loan agreement. Lenders are expected to follow accepted standards employed by prudent lenders in the area in servicing similar type loans. In servicing loans lenders will make every effort to prevent and minimize potential losses. Lenders will use prudence in disbursing loan funds to borrowers to assure, to the extent feasible, that loan funds are used only for the purposes for which the loan is made. Unless approved by the Commissioner, any amounts disbursed for purposes other than those provided in the loan agreement shall be excluded in computing the amount for which the lender may be reimbursed in the event of a loss on a loan.

14. **Modification of Loan Agreements (25 CFR 103.21).** Guaranteed loans may be modified with the approval of the parties of the original loan agreement. The Commissioner's approval is required to modify guaranteed loans which required the Commissioner's approval only if the modification repayment (1) changes the repayment schedule, (2) changes the prime security, (3) changes the interest rate, (4) changes the use of loans funds, (5) increases the principal amount of a loan, except as provided on #103.22, (6) changes to the plan of operation, (7) amendment or changes in the organization papers of the borrower, (8) changes in partnership agreements, or (9) changes the location of an enterprise.

15. **Sale or Assignment of Guaranteed Loans (25 CFR 103.51).** Lenders may sell or assign a guaranteed loan, including the security and guaranty certificate, to any other financial institution that is subject to examination and supervision by an agency of the United States, a state or the District of Columbia. The institution acquiring the loan shall notify the Commissioner to writing within 30 days after acquisition. Form 5-4758, Notice of Acquisition of Loan, furnishes the required information and when furnished to the Superintendent of the Agency Office servicing the guaranteed loan shall constitute written notice to the Commissioner. Failure of the acquiring lender to furnish such notice within the 30 day period will void the guaranty unless the Commissioner authorizes an exception because of extenuating circumstances.

Lenders should submit the original and two copies of Form 5-4758 to the Agency Superintendent who is assigned responsibility for recordkeeping and servicing of the loan. The Superintendent will immediately acknowledge receipt on the bottom of the form and return a copy to the acquiring lender. The Superintendent will retain one copy for his records and submit the original, through the Area Director, to the Central Office, Division of Financial Assistance.

Handed out @ 10/9/87 mtg
Dave Rose

EQUITY CAPITAL
As of 9/30/87

	9/30/87	6/30/87	3/31/87	12/31/86	9/30/86	6/30/86
Alaska Continental	1,652,000.00	2,971,000.00	2,980,000.00	3,035,000.00	3,830,000.00	4,595,000.00
Alaska Mutual	(109,529,000.00)	(103,545,000.00)	(2,847,000.00)	6,562,000.00	38,996,000.00	48,098,000.00
Alaska Nat. Bank of the North	(5,854,000.00)	3,456,000.00	8,109,000.00	10,285,000.00	15,044,000.00	16,060,000.00
Alaska Pacific Bank	24,643,000.00	23,958,000.00	23,329,000.00	23,226,000.00	22,458,000.00	21,639,000.00
Alaska Statebank	11,520,000.00	13,432,000.00	15,433,000.00	16,825,000.00	17,467,000.00	17,573,000.00
B. M. Behrends	3,903,000.00	3,905,000.00	4,011,000.00	3,883,000.00	3,975,000.00	4,940,000.00
Denali Statebank	4,728,000.00	4,648,000.00	4,591,000.00	4,620,000.00	4,605,000.00	4,795,000.00
First Bank	12,946,000.00	12,666,000.00	12,558,000.00	12,095,000.00	11,836,000.00	11,274,000.00
First Fed. Bank of Alaska	10,631,000.00	12,162,000.00	15,205,000.00	15,778,000.00	17,166,000.00	17,128,000.00
First Int. Bank of Alaska	2,780,000.00	5,330,000.00	14,325,000.00	18,138,000.00	30,138,000.00	35,227,000.00
1st Nat. Bank of Anchorage	138,957,000.00	136,097,000.00	133,615,000.00	131,256,000.00	130,467,000.00	127,474,000.00
1st Nat. Bank of Fairbanks	21,121,000.00	20,333,000.00	15,707,000.00	15,596,000.00	15,419,000.00	15,051,000.00
Mt. McKinley Mutual Banks	8,172,000.00	8,022,000.00	7,852,000.00	7,680,000.00	7,511,000.00	7,350,000.00
National Bank of Alaska	153,169,000.00	148,450,000.00	153,311,000.00	150,801,000.00	147,378,000.00	142,902,000.00
Rainier Bank Alaska	12,252,000.00	12,061,000.00	12,400,000.00	12,380,000.00	12,270,000.00	12,213,000.00
United Bank of Alaska	(86,413,000.00)	(81,431,000.00)	(3,985,000.00)	6,479,000.00	21,523,000.00	27,044,000.00
United Bank Alaska S.E.	2,799,000.00	3,107,000.00	3,376,000.00	4,213,000.00	5,102,000.00	5,610,000.00
	$207,477,000.00	$225,622,000.00	$419,970,000.00	$442,852,000.00	$505,185,000.00	$518,973,000.00

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