

MISCELLANEOUS INFORMATION

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Senate Bills:

- SB 333 - An Act relating to wage, salary, and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; - Sen. Halford (House Labor & Commerce Committee)
- SB 392 - An Act relating to delinquent loans of Alaska Industrial Development and Export Authority; - Sen. Halford (Senate Finance)
- SB 408 - An Act relating to Alaska stabilization assistance program; - Sen. Kelly and Sturgulewski (S. Fin.)
...Memorandum - Sen. Kelly to All Senators 2/9/88
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- SB 409 - An Act making a special appropriation to the Alaska stabilization assistance fund; - Sen. Kelly and Sturgulewski (S. Fin)
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- SB 474 - An Act increasing property exemptions. - Sen. Halford (S. Fin)
- SB 476 - An Act creating the supplemental assistance fund for Railbelt Communities;.... - Sen. Halford (S. Fin)
- SB 477 - An Act making a special appropriation to the Department of Community and regional Affairs for supplemental

municipal assistance to Railbelt communities; -
Sen. Halford (S. Fin)

SCR 32 - Urging the state's financial institutions to adopt more flexible lending and collection policies. - Sen. Fischer (H. L&C)

House: Housing and Banking Subcommittee Pending Legislation

HB 402 - An Act relating to the Alaska Industrial Development and Export Authority; Rules Committee/Governor

HB 429 - An Act relating to an optional exemption from municipal taxation - L & C Committee

HB 430 - An Act relating to the neighborhood business development program; - L & C Committee

HB 431 - An Act making an appropriation to the neighborhood business development fund; - L & C Committee

HB 432 - An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; - Rep. Donley

HB 433 - An Act establishing a moratorium on judicial and nonjudicial foreclosures; - L & C Committee

HB 434 - An Act relating to municipal development and redevelopment - Rep. Menard

HB 457 - An Act relating to the Alaska stabilization assistance program; - Rep. Pettyjohn

HB 458 - An Act making a special appropriation to the Alaska stabilization assistance fund; - Rep. Pettyjohn

Proposed Bills:

An Act providing interim payment reductions of the monthly mortgage payments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; - Sen. Halford

An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; - Sen. Faiks

An Act establishing a moratorium on judicial and nonjudicial foreclosures; - Sen. Halford

Urging state agencies that make loans to withhold approval of loans for new construction in areas in which availability of

business and commercial facilities and residences substantially exceeds demand. - Sen. Faiks

Relating to opportunities offered by the present crisis in residential housing. - Sen. Faiks

Relating to the Alaska Industrial Development and Export Authority. - Sen. Faiks

FDIC Information:

Letter - Senators Jones and Sturgulewski and Representative Gruenberg to Lamar Kelly, FDIC 2/5/88

Article - Anchorage Daily News 2/20/88 - Real Estate Bailout? No way witnesses say.

Summary of Anchorage Economic Development Corporation proposal for purchase and management of FDIC assets - Robert B. Flint

A Development Venture Company: An Appropriate Financial Institution for Alaska - Peter McDowell.

Article - Anchorage Times 1/28/88 - Sealaska Eyes FDIC Properties.

Alaska Investment Bank & Trust: A Real Estate Holding Company for the People of Alaska - John M. Bashaw 2/15/88.

Reports and Letters:

Municipality of Anchorage Economic Recovery Program - Mayor Tom Fink.

Economic Recovery Task Force - Anchorage Chamber of Commerce.

Article - Anchorage Daily News - It's time to take economic action - Scott Hawkins.

Article - Seattle Times 2/7/88 - Agency set up to sell assets seeks bailout.

Can State Spending Speed Alaska's Economic Recovery? - ISER

Letter - David L.T. Knudson to Senators Sturgulewski, Faiks, Halford, and Kelly 2/11/88.

Letter - Joseph E. Heintz, Peat Marwick Main & Co. to Governor Cowper 1/8/88.

The Recession, the Real Estate Crash and Alaska's Economic Prospects - Gregg Erickson, OMB

Options to Improve the Alaskan Economy - David A. Rose, PFDC

Memorandum - Commissioner Hugh Malone to Representative Gruenberg
2/19/99.

Memorandum - Alfred G. Zangri, Economist, Dept. of Revenue to
Milt Barker, Dpty Commissioner Dept. of Revenue 2/12/88.

Fact Sheet: The Southwest Plan - FSLIC 2/5/88

Commonwealth North Report

Fortune Properties Market News Vol 4, Issue 1, 1988 - Connie
Yoshimura.

Letter - Norman Rokeberg - Economic Recovery: Commercial Real
Estate.

Original sponsors: Halford, Kelly,
Uehling, et al.

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 333 (L&C)(efd add)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to wage, salary, and benefit claims
7 having priority in certain bank liquidations and to
8 certain bank reports required by the Department of
9 Commerce and Economic Development; and providing for
10 an effective date."

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

12 * Section 1. AS 06.05.045(a) is amended to read:

13 (a) Each [EVERY] state bank shall make at least four reports of
14 condition each year to the department on days designated by it, and on
15 forms prescribed by it. The report shall be verified by an oath of
16 the president, vice president, or cashier and by at least three direc-
17 tors, certifying and subscribing under oath that they and each of them
18 have personal knowledge of the facts stated in the report and that the
19 facts are true. The reports shall exhibit in detail and under appro-
20 priate heads the resources and liabilities of the bank, and each
21 report shall be transmitted or mailed to the department no later than
22 30 [WITHIN 10] days after the date designated for the report [OF THE
23 RECEIPT OF THE REQUEST FROM THE DEPARTMENT].

24 * Sec. 2. AS 06.05.470(t) is amended to read:

25 (t) The following claims have priority in liquidation proceed-
26 ings, in the order listed:

27 (1) obligations incurred by the department;

28 (2) wages, [AND] salaries, and benefits of officers and
29 employees earned during the 12-month [THREE-MONTH] period preceding

1 the department's possession in an amount not exceeding \$12,000
2 [\$3,000] for each person;

3 (3) fees and assessments due to the department;

4 (4) deposits.

5 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Original sponsors: Halford, Faiks,
Kelly, et al.

1 IN THE SENATE BY THE RULES COMMITTEE
2 CS FOR SENATE BILL NO. 392 (Rules)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION
5 A BILL
6 For an Act entitled: "An Act relating to the Alaska Industrial Development
7 and Export Authority; and providing for an effective
8 date."
9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
10 * Section 1. AS 44.88.165 is repealed and reenacted to read:
11 Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall
12 adopt regulations to describe the circumstances under which it will
13 discontinue purchasing loans from a financial institution because of
14 excessive delinquencies among the loans previously purchased from the
15 financial institution. In adopting the regulations, the authority
16 shall take into consideration its delinquency experience with loans it
17 has purchased from all financial institutions.
18 (b) The authority may include in the regulations other remedies
19 it considers appropriate as alternatives to the discontinuance of
20 purchasing loans from the financial institution.
21 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 392 (Rules)
 PUBLISH DATE: 2-29-1988
 (SENATE)

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to the AIDEA

Agency Affected: AIDEA
 BRU: Same as above

Sponsor: Halford, Faiks, Kelly, et al.
 Requester: Senate Rules

Components: Same as above

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Passage of this legislation will have no fiscal impact upon the Authority's budget.

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651
 Division: AK Industrial Dev. and Export Authority (AIDEA) Date: February 26, 1988

Approved by Commissioner: J. Anthony Smith *Kathy Newell* Date: 2/25/88
 Agency: Department of Commerce and Economic Development

Distribution (by preparer):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

BY HALFORD, FAIKS, KELLY,
STURGULEWSKI, HENSLEY, ABOOD,
FISCHER, JONES, JOSEPHSON AND
UEHLING

1 IN THE SENATE

2

SENATE BILL NO. 392

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to delinquent loans of the Alaska
7 Industrial Development and Export Authority; and
8 providing for an effective date."

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

10 * Section 1. AS 44.88.165 is repealed and reenacted to read:

11 Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall
12 adopt regulations to describe the circumstances under which it will
13 discontinue purchasing loans from a financial institution because of
14 excessive delinquencies among the loans previously purchased from the
15 financial institution. In adopting the regulations, the authority
16 shall take into consideration its delinquency experience with loans it
17 has purchased from all financial institutions.

18 (b) The authority may include in the regulations other remedies
19 it considers appropriate as alternatives to the discontinuance of
20 purchasing loans from the financial institution.

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

1 IN THE SENATE

BY KELLY AND STURGULEWSKI

2

SENATE BILL NO. 408

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the Alaska stabilization assis-
7 tance program; and providing for an effective date."

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

9 * Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose
10 of the Alaska stabilization assistance program is to promote the stabi-
11 lization of real property values in the state.

12 (b) The Alaska stabilization assistance fund is established in the
13 Alaska Industrial Development and Export Authority. The authority may use
14 money appropriated to the fund to carry out the purposes of this section.
15 An appropriation to the Alaska stabilization assistance fund lapses to the
16 fund from which it was appropriated July 1, 1992, unless specified other-
17 wise in the appropriation act. Other receipts shall be separately
18 accounted for and deposited into the general fund. Each year the authority
19 shall notify the legislature of the amount of these receipts and the legis-
20 lature may appropriate that amount into the Railbelt energy fund
21 established under AS 37.05.153.

22 (c) To encourage lenders not to attempt to dispose of real property
23 in the state that has been foreclosed upon or otherwise acquired through
24 actions taken on defaulted loans until the real estate market in the state
25 becomes more stable, the authority may enter into contracts to provide for
26 the management of the property. However, the authority may provide for the
27 management of property only through June 30, 1992.

28 * Sec. 2. This Act is repealed July 1, 1992.

29 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE



SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 485-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7612

Feb. 9, 1988

To: All Senators
From: Senator Tim Kelly TDK

re: The Alaska Stabilization Assistance Program (ASAP)

I am introducing the attached legislation. It's essentially a "generic" bridge bank concept as originally proposed by Dave Rose.

Several different proposals for helping to slow the decline of property values throughout Alaska, and particularly Southcentral, have surfaced. I can support any number of these. If, however, the Legislature cannot within the next 90 days agree upon a more specific proposal, this legislation would enable AIEDA to contract with a separate entity to help maintain a floor on real estate values.

The problem is not just the portfolio the FDIC has assumed in Alaska, but also the Alliance Bank portfolio, which could be an even larger problem, as well as several other institutions and banks with similar serious concerns. If a separate entity can be created to pool these problem properties and effectively prevent competitive "dumping", I believe a service will be done. I understand that both the FDIC and Alliance Bank would be interested in exploring such a concept.

I have initially capitalized the ASAP through a \$15 million loan from the Railbelt Energy Fund. I'm not wed to this source of funding. Either AIEDA or General Fund money might be used, but as the problem, while statewide, appears to be predominately a railbelt problem, I'm not shy about proposing borrowing the money from the Railbelt account.

Both private industry and the FDIC have been extremely active in trying to solve this serious problem. I believe the State should also become a limited player at this time.

I urge your co-sponsorship.

STATE OF ALASKA

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE



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SENATOR TIM KELLY

February 8, 1988

TO: Tam Cook
FROM: Sen. Tim Kelly *TK*

re: Alaska Stabilization Assistance Program (ASAP)

Please draft legislation which:

1) Creates a distinct "Alaska Stabilization Assistance Program" within the Alaska Industrial and Export Development Authority (AIEDA);

- a) stating that the purpose of the program is to facilitate the development of a separate organization to promote the stabilization of real estate values in Alaska;
- b) placing the account under the direction of the Board of Directors of AIEDA;
- c) authorizing AIEDA to contract with an entity to assume management of foreclosed upon property held by financial institutions and loans collateralized by real estate, for the purpose of reorganizing and stabilizing that property, and;
- d) stating that AIEDA shall contract to retain management of said property until such time as it is determined that property market values have stabilized and improved.

2) Appropriates \$15 million from the Railbelt Energy Account to the "Alaska Stabilization Assistance Program" of the Alaska Industrial and Export Development Authority, for the purpose of paying operational costs involved in the management of foreclosed property;

Attach a letter stating:

It is the intent of the Legislature that these funds shall be construed as a five year interest bearing loan to AIEDA, with the interest to be determined by the annualized prime rate.

As funds are recovered from the management of this property, these funds shall be returned to the Stabilization Assistance Program which will distribute these funds first to the General Account of the State of Alaska, with appropriate notice to the legislature as to the derivation of these funds so they can be returned to the Railbelt Energy Fund, then to the lending institutions from whom the property management was assumed.

Effective Date: Immediate

Le Roccabella
24 Avenue Princesse Grace
Monte-Carlo
Principality of Monaco
Tel. (33) 93.50.95.50
Telecopy (33) 93.25.89.37
or (33) 93.50.71.45

To David Rose Alaska Permanent Fund By Fax 907 586 2057
18th Feb 1988

re Hallwood Alaskan Real Estate Stabilisation Trust

Dear David,

Herewith a clean ammended copy of the Trust Proposal. Please feel free to circulate the document at your discretion. I will be available for meetings in Alaska or elsewhere at any time after the 6th March next.

I have already copied the following on the proposal...

Governor Cowper

Tony Smith

Max Gruenberg

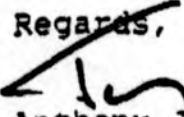
Senators Kelly and Sturgulewski

The Members of the House Subcommittee on Housing and Banking

Ashley Reed

I have also copied all our own people and the FDIC, FHLBB, MGIC, AHFC, AIDEA, Fannie Mae, N.Y. Life and any other Alaskan lending institutions which we feel may be interested in participating. I look forward to speaking to you again before I leave for my holiday on Monday.

Regards,


Anthony J. Gumbiner

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 South Eastern 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 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 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 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 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 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.

While 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 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 US. 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 utilising 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 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 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.

Distributions 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 Satation of 7 year participating Loan Notes in an 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 from 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 18th 1988

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

Tel: 212-319-2360

**A CONCEPTUAL PLAN FOR AN
ALASKA STABILIZATION ASSISTANCE PROGRAM**

**A FEDERAL, STATE, LOCAL GOVERNMENT
AND PRIVATE SECTOR PARTNERSHIP**

This paper expands, clarifies and combines some options set forth in a White Paper entitled "Options to Improve the Alaskan Economy" dated January 1988 and attached hereto.

DAR/FEB.88

These agencies/entities own real estate as the result of foreclosure. They also hold defaulted and delinquent loans secured by real estate.

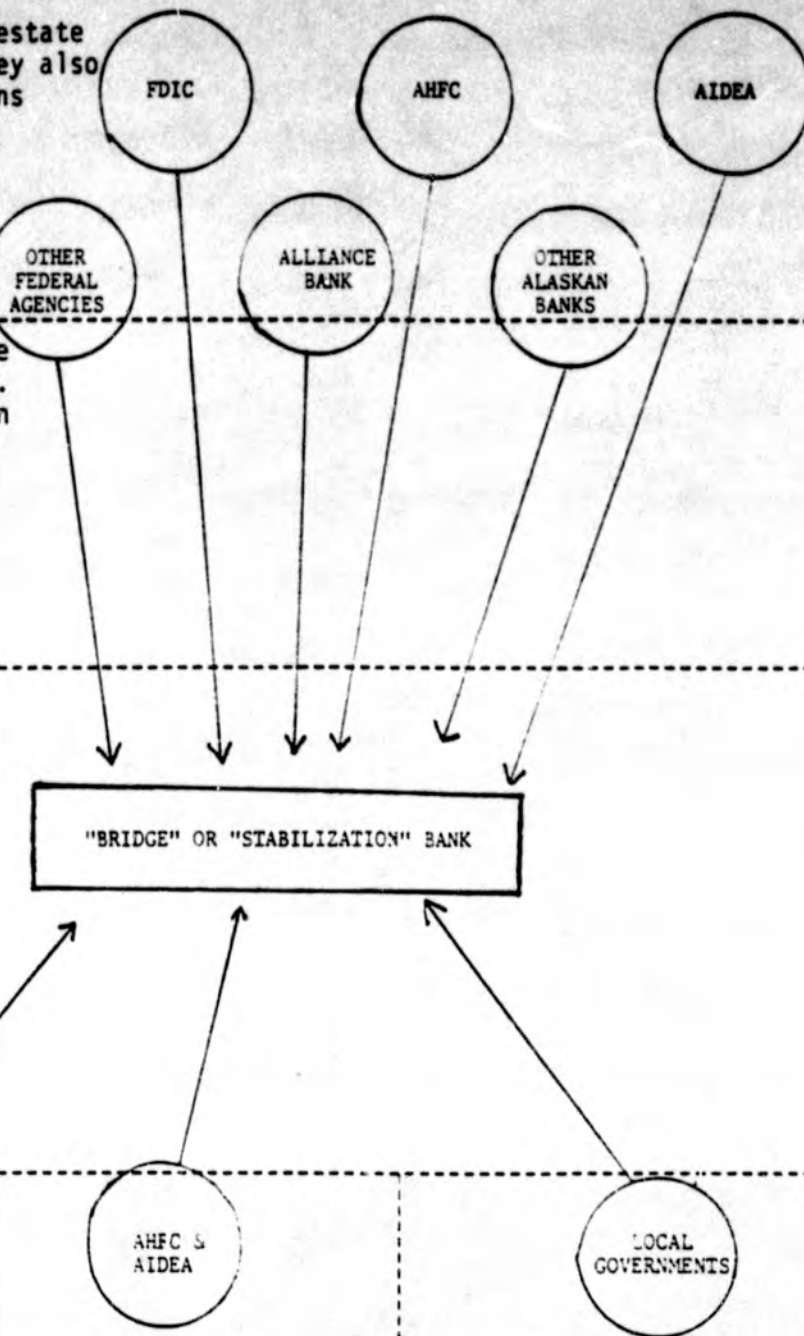
These agencies/entities contribute the above assets to "bridge" bank. They own an undivided interest (on a pro-rata basis in proportion to contribution) in this pool.

Responsible for:

Stabilization
Loan Reschedules
Loan Workouts
Liquification of
Assets and
Cash Return
To Pool Contr-
ibutors on a
Pro-rata basis.

If Required.
Provides working
capital of about
\$15,000,000

Receives return of
above prior to payout
to pool "owners".



Impose new supply
moratoriums which
can be subject to
waiver upon request
of local governments.

Restrict new supply:
Platting
Zoning
Utility Expansion

May request waiver of
moratoriums after public
hearings.

1. This concept requires the combined efforts of federal, state, local and private entities.... A partnership to address mutual problems and solve them on a cooperative basis.
2. It does not "bail out" anybody. No purchases of assets occur, no checks are written. Those entities who "own" problems continue to own them through pro-rata interests in a common pool.
3. Valuation of assets does not present a problem because no purchase takes place. All assets are valued at municipal assessment levels as of a given date. Valuation is utilized only to determine pro-rata share of the common pool.
4. The pool holds assets to stabilize values, eventually liquifies these assets and returns proceeds to pool owners.
5. The State provides a loan (up to \$15,000,000) for working capital which is repaid prior to distributions to pool owners. This working capital may not be needed if there is adequate cash flow generated by pool assets but it is evidence of the State's interest and intent to help address and solve this problem.
6. State agencies such as AHFC and AIDEA place moratoriums on financing new supply. These can be waived if local governments so request. (General, statewide moratoria may not be in the best interests of those communities which do not have excess supply of all -- or certain types of -- real estate.)
7. Local governments cannot exacerbate the supply problem by encouraging new construction. Therefore they may consider local moratoria on rezones, replats and utility extensions in order to discourage new construction in those categories of real estate where there currently is excess supply.

NOTE: AHFC = Alaska Housing Finance Corporation is an instrumentality of the State.

AIDEA = Alaska Industrial Development and Export Authority is an instrumentality of the State.

EXECUTION

The establishment of the "Bridge" or "Stabilization" bank is coordinated by a State agency which also serves as the recipient of the State appropriation.

The State agency, using the appropriation (and subsequent loan) as a lever, binds the parties together by contract. It does not operate the bridge bank but does insure that it is contractually obligated to hold assets for stabilization.

The bridge bank is operated by a Board of Directors who set policy and appoint officers who select and direct staff. The Board of Directors of the bridge bank are chosen by the pool participants who vote their pro-rata share of asset contribution.

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.

Value of Mat-Su property plunges 15 to 20 percent

By DAVID HULEN
Daily News reporter

WASILLA — New figures show that the value of property in the Matanuska-Susitna Borough, which grew like almost no place else in Alaska during the oil boom, has now plummeted to 1984 levels. Some real estate brokers say the price of property is continuing to slide.

Property tax assessment notices to be mailed out by the borough later this month spell out what many homeowners have known or suspected for months — that Mat-Su homes and businesses are worth an average of 15 to 20 percent less than they were a year ago.

To the borough, the drop in the total worth of Mat-Su

property means a shrinking tax base. It'll put the borough assembly in the position later this year of deciding whether to raise tax rates to continue schools and services, making new cuts, or finding new sources of money.

To landowners, it could mean a corresponding drop in property taxes, although that may not be much consolation to people who've watched the real worth of their homes sink below the mortgage value.

The figures, which reflect the prices paid for homes that have been sold over the past year, are just another sign that the economy in the Valley continues its slide, along with the much of the rest of the state. Anchorage is expect-

ted to experience a similar drop this year.

The drop in real estate values — as much as 30 percent on some homes and commercial properties — has resulted in something of a mini-boom in real estate sales, especially in the latter months of 1987, according to several real estate brokers.

"Last year was definitely an improvement over '86," said Kristan Tanner, a Wasilla broker. The slow market had led brokers to dub the area as "Death Valley," she said. Four years ago, there were 275 licensed real estate brokers in the Valley; today there are 105.

"Most of the Realtors that

See Page B-2, VALLEY

VALLEY: Property values plummet 15 to 20 percent since last year

Continued from Page B-1

are left are doing quite well. It definitely has picked up. We're real happy," Tanner said.

About 600 Mat-Su homes were sold last year, according to borough figures.

The problem, Tanner and others noted, is that the increase in homes being sold is coming at the expense of people being forced to sell their homes at prices lower than their mortgage values. No longer able to make payments, people have been selling homes for whatever they'll bring, and prices have dropped further and further in recent months. Foreclosures and repossessions continue.

"I see institutions panicking and still lowering prices," said Penny Milton, a Wasilla broker whose agency handles homes repossessed by the Department of Housing and Urban Development.

"That pulls everything down. There are a lot of buyers now ... you have investors and people who are renting now. But it's getting to the point where anyone who owns a house here — anyone who bought in during the boom — is facing an impossible situation as far as selling at what they paid."

For the first time, many Mat-Su residents likely are seeing their property assessments from the borough dip below the mortgage value of their homes, said Borough Assessor Gary Lewis. While prices began sliding in Anchorage two or three years ago, the crash hit Mat-Su later and many properties didn't change in value during last year's assessment.

"Just about anybody who bought a house in '83-'84-'85 is looking at negative equity out here now," he said. About the only things that have held their value, he said, are recreation properties.

The borough assessments are used to compute the amount of property tax owed and are based on selling prices of similar properties. Until last year, the total value of Mat-Su property rose every year from the time the borough was established in 1964, peaking at \$2.4 billion in 1985. Last year, values dropped between 1 percent and 2 percent, and will drop to around \$2 billion this year, Lewis said.

Borough assemblymen have been vowing in recent weeks that they won't try to raise tax rates to make up for it. Instead, they say, they'll continue lobbying for more state assistance, and will consider further cuts when they write budgets this spring.

Mat-Su unemployment in December was 17.4 percent, the highest in this part of Alaska and nearly double the statewide rate. And that number includes only those classified by the state as actively looking for work, and generally doesn't count seasonal workers and those who only work from time to time.

Many people are working fewer hours or at lower wages. There are almost 1,000 fewer jobs in Mat-Su than two years ago, according to state figures.

No boroughwide population estimate has been done since 1986, but there are signs that people are continuing to trickle Outside to get away from the depressed economy. School enrollments and utility connections, for instance, are down about 4 percent from a year ago.

Businesses continue to close; the Chevrolet dealership in Wasilla is among the

major ones to go under in recent months.

Although it is not dramatic, there have been a few positive signs. Some new retail businesses have opened. Over the next couple of weeks, VECO Inc., plans to temporarily hire between 50 and 60 ironworkers, welders and heavy equipment operators to build a pair of oilfield modules for use on the North Slope. The jobs, paying an average of about \$15 an hour, are expected to last until March.

The \$45 million Colony school project near Palmer has kept a flicker of heavy construction activity alive, with as many as 100 workers. The schools are scheduled to be completed later this year, although, because of drops in school budgets and number of pupils, it remains unclear whether the schools will be opened.

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

:khe1/30

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 \$360 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 Agency, New York Life and other Alaskan lending institutions all hold similar "bad" real estate loans.~~

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 individied 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~~

~~by the State of Alaska, and the 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 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 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 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, Japanese, American, prospective purchasers through Hollywood'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.

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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.

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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 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.

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

Funding Information
General Fund \$15,000,000
Other Funds -0-
\$15,000,000

1 IN THE SENATE

BY KELLY AND STURGULEWSKI

2

SENATE BILL NO. 409

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act making a special appropriation to the Alaska

7

stabilization assistance fund; and providing for an

8

effective date."

9

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

10

* Section 1. The sum of \$15,000,000 is appropriated from the Railbelt
energy fund (AS 37.05.153) to the Alaska stabilization assistance fund.

12

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the
Railbelt energy fund (AS 37.05.153) on July 1, 1992.

14

* Sec. 3. This Act takes effect on the effective date of a version of
an Act enacted by the Fifteenth Alaska State Legislature establishing the
Alaska stabilization assistance fund.

16

BY HALFORD, FAIKS, UEHLING,
JOSEPHSON, STURGULEWSKI AND
ABOOD

1 IN THE SENATE

2 SENATE BILL NO. 471

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a program in the Alaska Indus-
7 trial Development and Export Authority to guarantee
8 business loans and to refinance debt; and providing
9 for an effective date."

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

11 * Section 1. AS 44.88 is amended by adding new sections to read:

12 ARTICLE 6A. BUSINESS ASSISTANCE PROGRAM.

13 Sec. 44.88.500. BUSINESS ASSISTANCE FUND. The business assis-
14 tance fund is established in the authority from appropriations for the
15 purpose. Subject to the requirements of AS 44.88.500 - 44.88.599, the
16 authority may use money in the fund

17 (1) to guarantee loans to businesses that qualify under
18 AS 44.88.510(a) and apply under AS 44.88.520(a); and

19 (2) to refinance the debt of businesses that qualify under
20 AS 44.88.510(b) and apply under AS 44.88.520(b).

21 Sec. 44.88.510. APPLICANT QUALIFICATIONS. (a) A business
22 enterprise may apply for a loan guarantee under AS 44.88.500 - 44.88.-
23 599. The authority may establish additional applicant qualifications
24 by regulation and these qualifications may vary depending upon the
25 type of business the applicant is engaged in.

26 (b) A business enterprise may apply under AS 44.88.500 -
27 44.88.599 to refinance existing debt. The authority may approve a
28 refinancing of existing debt if the authority finds that

29 (1) the refinancing involves a viable project; and

1 (2) the refinancing will save existing jobs.

2 Sec. 44.88.520. APPLICATION. (a) An applicant for a loan
3 guarantee shall provide an economic benefit analysis prepared by a
4 person acceptable to the authority together with other information
5 that the authority may require by regulation.

6 (b) An applicant for refinancing of existing debt shall provide
7 the information that the authority may require by regulation.

8 Sec. 44.88.530. POWERS OF THE AUTHORITY. The authority may

9 (1) designate agents and delegate powers necessary to
10 implement AS 44.88.500 - 44.88.599;

11 (2) adopt regulations to implement AS 44.88.500 - 44.88.-
12 599;

13 (3) establish terms and conditions for loan guarantees and
14 refinancing agreements subject to the requirements of AS 44.88.500 -
15 44.88.599;

16 (4) make and execute contracts and other instruments to
17 implement AS 44.88.500 - 44.88.599;

18 (5) acquire real or personal property by purchase, trans-
19 fer, or foreclosure when the acquisition is necessary to protect an
20 interest in the fund; and

21 (6) exercise any other power necessary to implement AS 44.-
22 88.500 - 44.88.599.

23 Sec. 44.88.540. CONDITIONS OF LOAN GUARANTEES. (a) The author-
24 ity may guarantee a loan under AS 44.88.500 - 44.88.599 if the

25 (1) loan is commercially reasonable, secured by adequate
26 collateral, and the net cash flow from the borrower provides adequate
27 coverage for the debt service on the loan;

28 (2) term of the loan does not exceed 20 years;

29 (3) loan is originated with and serviced by a state

1 chartered or federally chartered financial institution;

2 (4) portion of the loan not guaranteed by the authority is
3 held by the originating financial institution or another financial
4 institution approved by the authority; and

5 (5) loan is made to a business with a majority interest
6 held by state residents.

7 (b) The authority may provide a guarantee from the fund for up
8 to 90 percent of a loan that qualifies under AS 44.88.550 - 44.88.560.
9 The ratio of the guarantee to the outstanding principal of the loan
10 shall remain the same over the term of the loan.

11 (c) The authority may not guarantee

12 (1) the payment of interest on the guarantee portion of a
13 loan; or

14 (2) more than \$1,000,000 per loan.

15 Sec. 44.88.550. CONDITIONS OF DEBT REFINANCING. The authority
16 may not refinance debt unless the refinancing

17 (1) is necessary to extend substantial debt payments over a
18 longer period of time, thereby improving the applicant's net cash flow
19 and working capital position consistent with the useful life of the
20 assets being refinanced;

21 (2) assists with short-term debt or cash expenditures when
22 lenders will not extend reasonable longer terms to the applicant; or

23 (3) is necessary to place a permanent loan subsequent to an
24 interim loan for financing construction of the project.

25 Sec. 44.88.560. INTEREST. The maximum interest rate on a loan
26 guaranteed by the authority is

27 (1) for a loan guarantee that equals or exceeds 80 percent
28 of the loan, one and one-half percentage points above the prime rate
29 on the day the loan guarantee is made; and

1 (2) for a loan guarantee that is less than 80 percent of
2 the loan, two and three-quarters percentage points above the prime
3 rate on the day the loan guarantee is made.

4 Sec. 44.88.570. DEFAULT OR FORECLOSURE. (a) Payments received
5 toward satisfaction of a default on a loan guaranteed under AS 44.88.-
6 500 - 44.88.599 shall be allocated between the lender and the fund
7 according to the guaranteed percentage of the loan until the principal
8 balance has been repaid.

9 (b) The authority shall dispose of property acquired through
10 default or foreclosure of a loan guaranteed or refinanced under
11 AS 44.88.500 - 44.88.599. Disposal shall be in a manner that serves
12 the best interest of the state and may include the amortization of
13 payments over a period of years.

14 Sec. 44.88.580. SPECIAL ACCOUNT ESTABLISHED. (a) There is
15 established as a special account within the fund the foreclosure
16 expense account. The account is established as a reserve from fund
17 equity.

18 (b) The authority may expend money credited to the foreclosure
19 expense account when necessary to protect the state's security inter-
20 est in collateral on loans guaranteed or refinanced under AS 44.88.-
21 500 - 44.88.599 or to defray expenses incurred during a foreclosure
22 proceeding after a default.

23 Sec. 44.88.590. PREREQUISITE FOR OTHER LOANS. Notwithstanding
24 other provisions of law, a business enterprise that qualifies under
25 AS 44.88.510(a) to apply for a loan guarantee under AS 44.88.500 -
26 44.88.599 shall apply for a loan guarantee before it may apply for a
27 direct loan of state money under any other state loan program. Only
28 after an application for the guarantee of a loan to be used for a
29 particular purpose is rejected under AS 44.88.500 - 44.88.599 may a

1 business enterprise apply for a direct state loan for that purpose.

2 Sec. 44.88.599. DEFINITIONS. In AS 44.88.500 - 44.88.599,

3 (1) "fund" means the business assistance fund established
4 under AS 44.88.500;

5 (2) "prime rate" means the lowest money center prime rate
6 of interest that is published in the Wall Street Journal.

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

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

MEMORANDUM

February 11, 1988

SUBJECT: Summary of business assistance program
proposed for AIDEA (Work order 5-1796B)

TO: Senator Jan Faiks

FROM: Jack Chenoweth
Legislative Counsel

The proposed business assistance program would permit the Alaska Industrial Development and Export Authority to become involved with business loan guarantees and with refinancing of existing business debt. The costs of both the loan guarantees and the refinancing would be met from a proposed "business assistance fund" in AIDEA, to which the legislature would make appropriations. The bill grants AIDEA general powers to implement the proposed business assistance program.

Loan guarantees: The applicant must be a business enterprise that meets qualifications set by AIDEA. The applicant must submit an economic benefit analysis and other information that AIDEA may require. AIDEA may guarantee a loan that meets the specific requirements and conditions of proposed AS 44.88.540, but generally limited to 90 percent of the loan that qualifies, with a guarantee of not more than \$1 million per loan. The bill sets maximum interest rates on a loan guaranteed by the authority expressed in terms of the relationship to the then-payable prime rate. Standard provisions are included to cover default and foreclosure. The bill would tend to make the AIDEA business assistance fund a principal source of state support for business borrowing in priority position to loans from other state sources in that it conditions further direct state loans to a qualifying business from other state sources on application for an AIDEA loan guarantee enterprise and rejection of the loan guarantee application.

Debt refinancing: The qualifications of an applicant for debt refinancing track those established for an applicant for a loan guarantee. Refinancing is limited to debt asso-

Senator Jan Faiks
Page 2
February 11, 1988

ciated with a viable project for which the refinancing may be show to save existing jobs. AIDEA may set specific requirements for information to be submitted in support of refinancing of debt, and may approve a debt refinancing application only if it meets the specific requirements and conditions of proposed AS 44.88.550. Under the grant of general authority to AIDEA to "exercise any other power necessary to implement" the business assistance program, the authority may establish additional procedures and requirements relevant to debt refinancing.

JBC:bb
wkb2/073



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 institutions 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 imbalance 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 too 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.

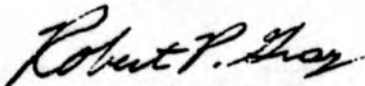
Senator Faiks
Senator Halford
Senator Sturgulewski
Page 3

- 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, they 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
President

RPG:sl



National Bank of Alaska

December 24, 1987

Corporate Headquarters: P.O. Box 100600 • Anchorage, Alaska 99510-0600 • (907) 276-1132

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.

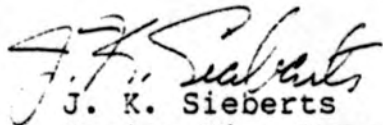
You were concerned about the banking community's support of such a program. Virtually every bank in the state that we have contacted, large and small, except for one, showed an interest in such a program. The other bank indicated that the state should get out of all lending activities.

Senator Jan Faiks
December 24, 1987
Page Two

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



IN REPLY REFER TO:

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF INDIAN AFFAIRS
Juneau Area Office
P. O. Box 3-8000
Juneau, Alaska 99802

February 1, 1987

Dear

Enclosed is information you have requested about our Loan Guaranty Program. Please be aware of our requirements for applicant/lender eligibility, eligible loans, and lender premium payments.

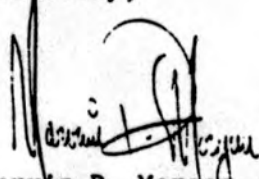
Not contained in the enclosed information are the following policies recently put into effect for our Loan Guaranty Program:

1. Lenders under our loan guaranty program should bear more than 10 percent of the risk, especially where the project generates sufficient revenue. However, no more than 90 percent of any loan will be guaranteed. This means that there can be no side guarantees for the 10 percent unguaranteed portion.
2. The interest rate that will be allowed under our loan guaranty program will be based upon the percentage of the loan guaranty. For a 90 percent loan guaranty, the maximum interest rate will be 1-1/2 percent above the prime rate as published in the Wall Street Journal. For a 80 or lower percent loan guaranty, the maximum interest rate will be 2-3/4 percent above the prime rate as published in the Wall Street Journal. The lender's interest rate would not be adjusted more often than quarterly. Every effort should be made to obtain a lower rate than the maximum allowed. There should be a relationship between risk and the interest rate charged.
3. The approval of an interest subsidy on a guaranteed loan is based on need. This determination will be made at the time of loan approval and will be reconsidered after five years. When submitting the loan guaranty request, calculate the interest subsidy that will be needed for the remainder of the year and three months of the next fiscal year. Submit a request for allotment for the interest subsidy with the loan guaranty request.

4. The Bureau's interest rate for the purpose of computing interest subsidies will be fixed for the term of the subsidy period.
5. Borrower must have at least 20 percent equity injection into their enterprise/project.
6. The Bureau of Indian Affairs will not consider a loan guaranty if such guaranty can be obtained from another source (i.e., the Small Business Administration).

Please call Roger Fitzjarrald at 586-7062 or me at 586-7103 should you have any additional questions or need clarification on any of the information presented above or enclosed.

Sincerely,



Marvin D. Morgan
Area Credit Officer

**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

reservation must comply with the requirements of applicable rules, resolutions or ordinances enacted by the governing body of the tribe and state and Federal laws, if applicable.

An Eligibility Certificate for Guaranteed Loan, Form 5-4752, may be obtained from the Agency having jurisdiction over the area in which the applicant resides.

6. Eligible Loans (25CFR 103.3). Loans to eligible organizations and individuals for financing economic enterprises which will contribute to the economy of a reservation and loans for housing on a reservation to be occupied by the borrower may be guaranteed. The following loans, when meeting the criteria of the preceding sentence, may be guaranteed.

A. Business. Loans to purchase land, buildings, supplies, equipment, machinery, tools, inventory and for working capital to be used in a business enterprise or in pursuing a gainful occupation may be guaranteed.

B. Agriculture. Loans to acquire lands, buildings, livestock, equipment, machinery, supplies and operating capital necessary to develop and operate all types of farming, ranching or other agricultural enterprises are eligible.

C. Land. Loans to purchase and develop land, within or adjacent to a reservation, to be used by an economic enterprise owned by the borrower may be guaranteed if there is economic benefit to the reservation.

D. Refinance. Funds loaned to refinance unsecured debts may be guaranteed only when it is clearly justified by the financial condition of the borrower and is clearly in his benefit.

F. Non-Recoverable Items. Funds included in loans for nonrecoverable items may be guaranteed only if the items are required in the direct operation of an economic enterprise.

7. Ineligible Loans (25 CFR 103.3 and 103.10). The following loans may not be guaranteed:

A. Payment of Personal Bills. Amounts included in loans to pay personal bills or obligations may not be guaranteed.

B. Non-Recoverable Items. Amounts included in loans for purchase of furniture, passenger carrying automobiles, trucks or pickups, household appliances, and similar items may not be guaranteed.

C. Refinance. Funds included to refinance debts to reduce the debt exposure of the lender may not be guaranteed.

D. Financing a Relending Program. Loans for financing a relending program may not be guaranteed.

E. Loans by Other Federal Agencies. Loans made by any agency or instrumentality of the Federal Government may not be guaranteed.

F. Funds Borrowed from the United States. Loans made by an organization of Indians making loans from funds borrowed from the United States may not be guaranteed.

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 guaranty 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:

- 1) The loan is paid in full prior to the expiration of the original term.
- 2) The loan is refinanced by a new loan.
- 3) The repayment schedule on the principal balance owing is extended beyond the original term, unless an exception is approved by the Commissioner. The interest subsidy shall only be discontinued as to the balance which has been extended beyond the original term of the loan.
- 4) The lender on a defaulted loan is reimbursed for a guaranteed loss. The date of the check shall be the date of reimbursement.

B. After receiving notice from the lender, the Commissioner will establish the interest subsidy rate and notify the lender of the rate established.

At the option of the lender, interest subsidies will be paid on the unpaid principal balance owed by a borrower either annually, semiannually, quarterly or monthly. Using Form 5-4749, Lenders Report of Premiums and interest Subsidies Due. Lenders should notify the Commissioner of loan payments received from borrowers and request payment of the subsidy. The interest subsidy, computed to the date payment was made by the borrower, will be paid to the lender. Interest subsidies may not be prepaid. Lenders shall promptly notify the Commissioner when borrowers pay interest or principal in advance of the due date(s) provided in the loan agreement.

11. Lender's Service Charge (25 CFR 103.44). Lenders may charge borrowers reasonable fees for appraisals and compliance inspections; for lien searches and filing and recording; for tax assessments and similar items necessary to protect the integrity of the loan; for insurance premiums, survey costs, title examinations and insurance; and for such other charges as may be authorized by the Commissioner at the time a loan is made. Service charges, if any, may be paid from the proceeds of a guaranteed loan when authorized in the loan agreement if the borrower cannot pay the charges from his own funds. However, if this is done, lenders may not charge interest on the amount advanced to pay service charges.

Borrowers shall not be required to pay points, finder's fees, loan origination fees, bonuses, commissions or similar charges.

12. Premium (25 CFR 103.43). A premium will be charged lenders on the unpaid principal balance of guaranteed loans at a rate established by the Commissioner.

A. Premium charges will not be charged to, collected from, or otherwise passed on to borrowers. The Commissioner will establish the premium rate to be charged on guaranteed loans made during a specified period of time and will notify lenders of the rate which will be charged during the period established. By advance written notice to lenders making guaranteed loans, the Commissioner may change or continue the rate established for the preceding period. The premium rate established for loans made during a given period of time will remain in effect for the duration of the loan. The Commissioner may require a change in the premium rate on refinanced guaranteed loans to the rate in effect at the time of refinancing.

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.

16. Release of Security (25 CFR 103.35). The prime security for a loan will not be released unless the property is to be sold and the net proceeds will be applied to the loan. When approved by the Commissioner, the prime security may be released when the proceeds from property sold are to be used to purchase property of similar nature and use and of at least equal value and lien priority, and when the lender, borrower and Commissioner agree that the sale and such use of the proceeds are necessary for the success of an economic enterprise. Lenders may release property which is planned to be sold in the regular course of business when the proceeds are to be used for purposes which the lender determines are necessary and proper in connection with the type of economic enterprise involved. Releases of security involving trust income or trust or restricted land will require prior approval of the Commissioner.

17. Preparation of Applications. It is immaterial whether an applicant makes arrangements for a loan with the lender first or approaches the Bureau. The following sets forth in general the responsibility of the applicant, lender and the Bureau of Indian Affairs (BIA).

A. Loan Applicant. The applicant will need to obtain written proof that he is eligible to obtain a guaranteed loan. To evidence eligibility of an applicant for a guaranteed loan, an Eligibility Certificate for Guaranteed Loan, Form 5-4752, will be issued at the request of an applicant, by the Superintendent of the reservation on which the applicant resides or which will benefit from the business venture. In addition, each applicant will be responsible to develop data to prepare a loan application. Many Indians have dealt with commercial lenders for some time either as an individual or in business, and they should continue to do so.

B. Lender's Responsibility. The lender shall make the necessary credit evaluation to determine if an applicant is a good credit risk and if a loan applicant has a reasonable chance to repay a loan. If the lender feels he could make a loan, providing that the Bureau will guarantee it, he will prepare the Request for Loan Guaranty and Approval, Form 5-4755.

(1) Guaranteed Loans. The lender will attach required financial statements and the loan application to Form 5-4755 and submit the docket to the local Agency Superintendent requesting a guarantee certificate.

C. Bureau Responsibility. Indian applicants may seek advice and assistance from the Bureau, as to probable lenders, necessary plans, financial data, feasibility reports, etc., in preparing a loan docket. Upon request, the Bureau credit staff will, to the extent possible, advise Indian applicants regarding the feasibility of a proposal.

BY HALFORD, FAIKS, UEHLING,
FANNING, SZYMANSKI, KERTTULA
AND ABOOD

1 IN THE SENATE

2 SENATE BILL NO. 474

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act increasing property exemptions."

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

8 * Section 1. AS 09.38.010(a) is amended to read:

9 (a) An individual is entitled to an exemption as a homestead of
10 the individual's interest in property in this state used as the
11 principal residence of the [THAT] individual or the dependents of the
12 [THAT] individual, but the value of the homestead exemption may not
13 exceed \$54,000 [\$27,000].

14 * Sec. 2. AS 09.38.010(b) is amended to read:

15 (b) If property owned by the entirety or in common is used by
16 one or more individual owners or their dependents as their principal
17 residence, each owner is entitled to a homestead exemption of that
18 owner's interest in the property as provided in (a) of this section.
19 The aggregate value of multiple homestead exemptions allowable with
20 respect to a single living unit may not exceed \$54,000 [\$27,000]. If
21 there are multiple owners of property exempt as a homestead, the value
22 of the exemption of each individual owner may not exceed the [THAT]
23 individual owner's pro rata portion of \$54,000 [\$27,000].

24 * Sec. 3. AS 09.38.020 is amended to read:

25 Sec. 09.38.020. EXEMPTIONS OF PERSONAL PROPERTY SUBJECT TO VALUE
26 LIMITATIONS. (a) An individual is entitled to an exemption in prop-
27 erty not to exceed an aggregate value of \$3,000 [\$1,500] chosen by the
28 individual from the following categories of property:

29 (1) household goods and wearing apparel reasonably

1 necessary for one household;

2 (2) if reasonably held for the personal use of the indi-
3 vidual or a dependent, books and musical instruments; and

4 (3) family portraits and heirlooms of particular senti-
5 mental value to the individual.

6 (b) An individual is entitled to exemption of jewelry, not
7 exceeding \$1,000 [\$500] in aggregate value, if held for the personal
8 use of the individual or a dependent.

9 (c) An individual is entitled to exemption, not exceeding \$2,800
10 [\$1,400] in aggregate value, of implements, professional books, and
11 tools of the trade.

12 (d) An individual is entitled to the exemption of pets to the
13 extent of a value not exceeding \$1,000 [\$500].

14 (e) An individual is entitled to an exemption of one motor
15 vehicle to the extent of a value not exceeding \$3,000 [\$1,500] if the
16 full value of the motor vehicle does not exceed \$20,000 [\$10,000].

17 * Sec. 4. AS 09.38.025(a) is amended to read:

18 (a) Except as provided in this section, an individual is enti-
19 tled to exemption of unmatured life insurance and annuity contracts
20 owned by the individual. If the contracts have accrued dividends and
21 loan values available to the individual aggregating more than \$10,000
22 [\$5,000], a creditor may obtain a court order requiring the individual
23 debtor to pay the creditor, and authorizing the creditor on the
24 debtor's behalf to obtain payment of, the amount of the accrued divi-
25 dends and loan values in excess of \$10,000 [\$5,000] or the amount of
26 the creditor's claim, whichever is less.

27 * Sec. 5. AS 09.38.030(a) is amended to read:

28 (a) Except as provided in (b) and (c) of this section and
29 AS 09.38.050, an individual debtor is entitled to an exemption of the

1 individual debtor's weekly net earnings not to exceed \$350 [\$175].
2 The weekly net earnings of an individual are determined by subtracting
3 from the weekly gross earnings all sums required by law or court order
4 to be withheld. The weekly net earnings of an individual paid on a
5 monthly basis are determined by subtracting from the monthly gross
6 earnings of the individual all sums required by law or court order to
7 be withheld and dividing the remainder by 4.3. The weekly net earn-
8 ings of an individual paid on a semi-monthly basis are determined by
9 subtracting from the semi-monthly gross earnings all sums required by
10 law or court order to be withheld and dividing the remainder by 2.17.

11 * Sec. 6. AS 09.38.030(b) is amended to read:

12 (b) An individual who does not receive earnings either weekly,
13 semi-monthly or monthly is entitled to a maximum exemption for the
14 aggregate value of cash and other liquid assets available in any month
15 of \$1,400 [\$700], except as provided in AS 09.38.050. The term
16 "liquid assets" includes deposits, securities, notes, drafts, accrued
17 vacation pay, refunds, prepayments, and receivables.

18 * Sec. 7. AS 09.38.050(b) is amended to read:

19 (b) The exemption amounts under AS 09.38.030 may be increased
20 when the individual submits an affidavit, under penalty of perjury,
21 stating that the individual's earnings alone support the individual's
22 household; by so doing, the maximum part of the individual's aggregate
23 disposable earnings for any week subject to execution may not exceed
24 the amount by which the individual's disposable earnings for that week
25 exceed \$550 [\$275], or, if the individual is claiming an exemption for
26 cash or other liquid assets under AS 09.38.030(b), a maximum amount of
27 \$2,200 [\$1,100] available in a [ANY] month is exempt.

Patrick M. Rodey
Senator

Alaska State Legislature



Senate

1024 W. 6th Avenue, Suite 308
Anchorage, Alaska 99501
(907) 276-6731

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-3717

TO : Senator Arliss Sturgulewski

FROM: Senator Patrick M. Rodey

DATE: February 29, 1988

RE: Limitation on use of new exemption in bankruptcy proceedings

Attached is a copy of the drafted amendment I mentioned which would exempt interests and payments under certain retirement plans from seizure by creditors.

I would appreciate you reviewing this proposal and would welcome your suggestions and input.

Attachment

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

MEMORANDUM

February 29, 1988

SUBJECT: Limitation on use of new exemption
 in bankruptcy proceedings

TO: Senator Pat Rodey

FROM: Theresa L. Bannister *TB*
 Legislative Counsel

This memo accompanies the amendment for SB 474 that you requested to exempt interests and payments under certain retirement plans from seizure by creditors. Please be aware, however, that with regard to bankruptcy proceedings the bill will not protect those plans where the individual establishes the individual's plan or where the individual can invade the corpus of the trust before retirement, disability or death. Legislation will not prevent this result because it is based on court interpretation of the bankruptcy law. Change in the federal law would be necessary to extend the protection to the presently unprotected plans. The court interpretation is based on the belief that a person should not be able to prevent creditors from reaching assets by establishing a retirement plan.

Please review proposed AS 09.38.017(c) of the bill to make sure it accomplishes what you want. The meaning of the corresponding section (sec. 33-1126 B.1.) in the Arizona bill was unclear, so I drafted what I thought it meant.

If I may be of further assistance, please advise.

Attachment

TLB:bb
WKB3:041

A M E N D M E N T

Offered in the SENATE

By Rodey

TO: SB 474

Page 1, following line 23:

Insert a new bill section to read:

"* Sec. 3. AS 09.38 is amended by adding a new section to read:

Sec. 09.38.017. EXEMPTION OF RETIREMENT PLAN INTERESTS AND PAYMENTS. (a) In addition to the exemption under AS 09.38.015(b), the following are exempt from a claim of an individual's creditor:

(1) the interest of the individual in a retirement plan;
and

(2) the money or other assets payable to the individual from a retirement plan.

(b) The exemptions provided by (a) of this section do not apply to a contribution made by an individual to a retirement plan within 120 days before the individual files for bankruptcy.

(c) The exemptions provided by (a) of this section do not prevent the payment of benefits under a retirement plan to an alternate payee under a qualified domestic relations order. In this subsection, "qualified domestic relations order" has the meaning given in 26 U.S.C. 414(p).

(d) In this section,

(1) "alternate payee" has the meaning given in 26 U.S.C. 414(p)(8);

(2) "individual" means an individual who is a participant in, a beneficiary of, or an alternate payee of a retirement plan;

(3) "retirement plan" means a retirement plan that is qualified under 26 U.S.C. 401(a), 26 U.S.C. 403(a), 26 U.S.C. 403(b), 26 U.S.C. 408, or 26 U.S.C. 409 (Internal Revenue Code)."

Renumber the following bill sections accordingly.

Page 2, line 18, after "section":

Insert "or in AS 09.38.017"

Page 3, following line 17:

Insert a new bill section to read:

"* Sec. 8. AS 09.38.030(e) is amended to read:

(e) The following property, unless exempt without limitation under AS 09.38.015 or 09.38.017, upon receipt by and while it is in the possession of the individual, shall be treated as earnings, income, cash, or other liquid assets under this section:

(1) benefits paid by reason of disability, illness, or unemployment;

(2) money or property received for alimony or separate maintenance;

(3) proceeds of insurance, a judgment, or a settlement, or other rights accruing as a result of bodily injury of the individual or of the wrongful death or bodily injury of another individual of whom the individual was or is a dependent;

(4) proceeds or benefits paid or payable on the death of an insured, if the individual was the spouse or a dependent of the insured; and

(5) amounts paid under a stock bonus, pension, profit-sharing, annuity, or similar plan or contract, providing benefits by reason of age, illness, disability, or length of service."

Renumber the following bill section accordingly.

Page 3, following line 27:

Insert new bill sections to read:

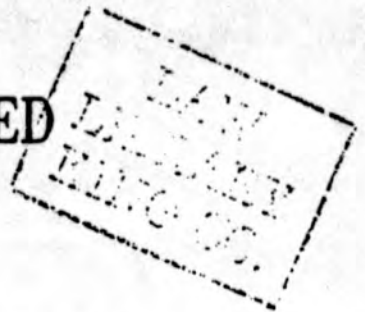
"* Sec. 10. AS 09.38.055 is amended to read:

Sec. 09.38.055. BANKRUPTCY PROCEEDINGS. In a proceeding under 11 U.S.C. (Bankruptcy) [THE BANKRUPTCY ACT (11 U.S.C.)] only the exemptions under AS 09.38.010, 09.38.015(a), 09.38.017, 09.38.020, 09.38.025 and 09.38.030 apply.

* Sec. 11. AS 09.38.017, as enacted by sec. 3 of this Act, does not apply to the assets of a bankruptcy estate in a proceeding filed under 11 U.S.C. (Bankruptcy) before the effective date of this Act."

ARIZONA REVISED STATUTES

~~~~~  
ANNOTATED



1987

Supplementary Pamphlet  
*Covering Years 1975 to 1987*

*For Use In 1987-1988*

Replacing 1986 Pocket Part in back of volume

Volume 11  
Titles 33 to 35

Including Legislation Enacted Through The First  
Regular Session And The First Through Third  
Special Sessions Of The Thirty-Eighth  
Legislature (1987)

ST. PAUL, MINN.

WEST PUBLISHING CO.



**PROPERTY**

t in excess of a fair market value of one hundred dollars.

r, one bicycle, one sewing machine, a family bible, a lot in any burial  
or one rifle or one pistol, not in excess of an aggregate fair market  
d dollars.

icle not in excess of a fair market value of one thousand five hundred or is maimed or crippled, the fair market value of the motor vehicle r thousand dollars.

prescribed prostheses for the debtor or a dependent of the debtor.

5/ Ch. 170, § 22; Laws 1983, Ch. 237, § 10.

and application of Laws      Law Review Commentaries  
the following § 12-2401.      Arizona's new exemption statute. 19 Ariz.Bar  
J. No. 3, p. 32 (1983).

**benefits or proceeds**

property of a debtor shall be exempt from execution, attachment or  
issued from any court:

ived by or payable to a surviving spouse or child upon the life of a parent or legal guardian, not exceeding twenty thousand dollars.

the minor child of a debtor or the proceeds thereof by reason of debtor not contracted for the special benefit of such minor child.

ceeds or benefits of any kind to be paid in a lump sum or to be paid on installment basis to the insured or any beneficiary under any life or disability insurance or any similar plan or program of benefits or annuity, except for premiums payable on such policy or debt of the insured, and except for collection of any debt or obligation for which the insured has been paid under the plan or policy and except for payment for support of a person from proceeds and benefits furnished in lieu of life insurance, but shall not have been subject to such order and subject to any exemption or deduction so replaced.

ing from any claim for the destruction of, or damage to, exempt  
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mpt under this article.

der value of insurance policies where for a continued, unexpired  
ch policies have been owned by a debtor and have named as  
surviving spouse, child, parent, brother, sister, or any dependent,  
ousand dollars for each surviving spouse, child, parent, brother,  
nt, not to exceed five thousand dollars in the aggregate. For this  
defined as one who is dependent upon the insured debtor for not  
s support.

images recoverable by any person by reason of any levy upon or his exempt personal property or by reason of the wrongful taking of property by any person, and the judgment recovered for such

ndred fifty dollars held in a single account in any one financial  
§ 6-101. The property declared exempt by this paragraph is not  
ervice charges assessed against the account by the financial  
account is carried.

her assets payable to a participant or beneficiary from, or any participant or beneficiary in, a retirement plan which is qualified under Section 408 or 409 of the United States Internal Revenue Code of 1986, or any claim of creditors of the beneficiary or participant, shall not apply:

## PROPERTY

1. To an alt  
§ 414(p) of the

2. To amount  
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any creditor of

C. Any person who is a resident of this state and who is a member of the armed forces of the United States may claim as a dependent for the purpose of including security benefits for the residence, not for rent.

Amended by Law  
12, 1983; Laws

<sup>1</sup> Section 33-11

**For effective  
1976, Ch. 170,**

### Reviser's Notes.

1983 Note. F  
41-1304.02, in p  
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**1987 Note.**

§ 41-1304.02, was relettered as subparagraph 8, subdivided as paragraph 8, and was relettered as

### Cross Reference

Garnishment,  
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§ 33-1130. 7  
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For effective  
1976, Ch. 17

## Law Review

Arizona's n  
J. No. 3, p. 3

## PROPERTY

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## PROPERTY

## § 33-1130

1. To an alternate payee under a qualified domestic relations order, as defined in § 414(p) of the United States Internal Revenue Code of 1986, as amended; or

2. To amounts contributed within one hundred twenty days before a debtor files for bankruptcy; or

3. To the assets of bankruptcy proceedings filed before July 1, 1987.

The interest of any and all alternate payees shall be exempt from any and all claims of any creditor of the alternate payee.

C. Any person the age of eighteen years or over, married or single, who resides within this state and who does not claim a homestead exemption under article 1 of this chapter<sup>1</sup> may claim as a personal property homestead exempt from all process prepaid rent, including security deposits as provided in § 33-1321, subsection A, for the claimant's residence, not exceeding the lesser of one thousand dollars or one and one-half month's rent.

Amended by Laws 1976, Ch. 170, § 23; Laws 1983, Ch. 237, § 11; Laws 1986, Ch. 4, § 28, eff. March 12, 1986; Laws 1987, Ch. 217, § 1.

<sup>1</sup> Section 33-1101 et seq.

For effective date and application of Laws 1976, Ch. 170, see note following § 12-2401.

### Reviser's Notes.

1983 Note. Pursuant to authority of section 41-1304.02, in paragraph 8, "months" was substituted for "month's" as a correction of a manifest clerical error.

1987 Note. Pursuant to authority of § 41-1304.02, subsection A, paragraph 8 was relettered as subsection B, subsection A, paragraph 8, subdivisions (a), (b) and (c) were renumbered as paragraphs 1, 2 and 3 and subsection B was relettered as subsection C.

### Cross References

Garnishment, monies in financial institution accounts, withholding from judgment debtor, see § 12-1578.

### Law Review Commentaries

Arizona's new exemption statute. 19 Ariz.Bar J. No. 3, p. 32 (1983).

Unconscionability as limitation on commercial sales arrangements. William E. Boyd, 18 Ariz. L.Rev. 48 (1976).

### Notes of Decisions

#### 1. In general

Proceeds from voluntary sale of real property declared as homestead were not exempt from garnishment even if vendor intended at time of sale to reinvest them in another homestead. McLaws v. Kruger (1981) 130 Ariz. 317, 636 P.2d 95.

## § 33-1130. Tools and equipment used in a commercial activity, trade, business or profession

The following tools and equipment of a debtor used in a commercial activity, trade, business or profession shall be exempt from process:

1. The tools, equipment, instruments and books of a debtor or the spouse of a debtor primarily used in, and necessary to carry on, the commercial activity, trade, business or profession of the debtor or the debtor's spouse, not in excess of an aggregate fair market value of two thousand five hundred dollars. For the purpose of this paragraph, "tools" do not include a motor vehicle primarily used by a debtor for personal, family or household purposes such as transportation to and from the debtor's place of employment.

2. Farm machinery, utensils, implements of husbandry, feed, seed, grain and animals not in excess of an aggregate value of two thousand five hundred dollars belonging to a debtor whose primary income is derived from farming.

3. All arms, uniforms and accoutrements required by law to be kept by a debtor.

Added by Laws 1976, Ch. 170, § 24. Amended by Laws 1983, Ch. 237, § 12.

For effective date and application of Laws 1976, Ch. 170, see note following § 12-2401.

### Law Review Commentaries

Arizona's new exemption statute. 19 Ariz.Bar J. No. 3, p. 32 (1983).

Unconscionability as limitation on commercial sales arrangements. William E. Boyd, 18 Ariz. L.Rev. 48 (1976).

BY HALFORD, FAIKS, JOSEPHSON,  
COGHILL, KELLY, FAHRENKAMP,  
KERTTULA AND SZYMANSKI

1 IN THE SENATE

2

SENATE BILL NO. 476

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act creating the supplemental assistance fund for

7

Railbelt communities; and providing for an effective

8

date."

9

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

10

\* Section 1. AS 29.60 is amended by adding a new section to read:

11

ARTICLE. 4A. SUPPLEMENTAL MUNICIPAL ASSISTANCE TO RAILBELT COMMUNITIES.

12

Sec. 29.60.380. SUPPLEMENTAL MUNICIPAL ASSISTANCE TO RAILBELT

13

COMMUNITIES. (a) There is established in the department the supple-

14

mental municipal assistance fund for Railbelt communities as an ac-

15

count in the general fund. The fund consists of money appropriated to

16

it. Money in the fund shall be used to make payments to Railbelt

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communities.

18

(b) The department shall adopt regulations for the determination

19

of entitlement to payments from the supplemental municipal assistance

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fund, application and approval of payments, and administration of

21

payments.

22

(c) In this section "Railbelt community" means a municipality

23

located within 25 miles of the right-of-way of the Alaska Railroad.

24

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

25



Funding Information  
General Fund \$31,752,215  
Other Funds -0-  
\$31,752,215

BY HALFORD, FAIKS, JOSEPHSON,  
COGHILL, KELLY, FAHRENKAMP,  
KERTTULA AND SZYMANSKI

1 IN THE SENATE

2 SENATE BILL NO. 477

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-  
7 ment of Community and Regional Affairs for supple-  
8 mental municipal assistance to Railbelt communities;  
9 and providing for an effective date."

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

11 \* Section 1. The sum of \$31,752.215 is appropriated from the interest  
12 earned on the principal of the Railbelt Energy Fund (AS 37.05.153) and  
13 deposited into the general fund to the Department of Community and Regional  
14 Affairs for supplemental municipal assistance to Railbelt communities under  
15 AS 29.60.380 for the fiscal year ending June 30, 1988.

16 \* Sec. 2. This Act takes effect on the effective date of an Act passed  
17 by the Fifteenth Alaska State Legislature that establishes the supplemental  
18 municipal assistance fund for Railbelt communities.

BY FISCHER, HALFORD, FAIKS, JONES,  
STURGULEWSKI, UEHLING, KERTTULA,  
KELLY

1 IN THE SENATE

2

SENATE CONCURRENT RESOLUTION NO. 32

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

Urging the state's financial insti-  
tutions to adopt more flexible lending  
and collection policies.

6

7

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

WHEREAS the state is experiencing a difficult economic period, and  
many persons are finding it difficult to meet their financial obligations  
and to improve their economic conditions; and

12

WHEREAS it would greatly help the state's economy if the state's  
financial institutions would adjust their lending and collection policies  
to the present abilities and needs of their customers by using more flexi-  
ble approaches, such as collection moratoriums and flexible payment sched-  
ules;

16

17

BE IT RESOLVED that the Alaska State Legislature urges the financial  
institutions of the state to adopt more flexible lending and collection  
policies in order to help improve the economy of the state.

18

19

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 402

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the Alaska Industrial Development  
and Export Authority; and providing for an effective  
date."

8

9

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

10

\* Section 1. AS 44.88.155(d) is amended to read:

11

(d) A loan purchased in whole or in part by the authority with

12

assets of the enterprise development account or with proceeds of bonds

13

secured by assets of the enterprise development account, other than a

14

loan that [WHICH] is financed with the proceeds of bonds of the au-

15

thority and secured only by a project applicant or a project,

16

(1) may not exceed

17

(A) \$25,000,000 [\$10,000,000]; or

18

(B) \$1,000,000 [\$500,000] if the loan is purchased

19

under AS 44.88.158;

20

(2) may not exceed the cost of the project or 75 percent of

21

the appraised value of the project, whichever is less, unless the

22

amount of the loan in excess of this limit is federally insured or

23

guaranteed or is insured by a qualified mortgage insurance company;

24

(3) may not be for a term longer than three-quarters of the

25

authority's estimate of the life of the project or 25 years from the

26

date the loan is made, whichever is earlier;

27

(4) shall contain complete amortization provisions satis-

28

factory to the authority requiring periodic payments by the borrower;

29

(5) shall be in the form and contain the terms and



1 provisions with respect to insurance, repairs, alterations, payment of  
2 taxes and assessments, default reserves, delinquency charges, default  
3 remedies, acceleration of maturity, secondary liens, and other matters  
4 the authority prescribes;

5 (6) shall be secured as to repayment by a mortgage or other  
6 security instrument in the manner the authority determines is feasible  
7 to assure timely repayment under a loan agreement entered into with  
8 the borrower;

9 (7) may not be made unless

10 (A) at least 10 percent of the principal amount of the  
11 loan is retained by the originator of the loan; or

12 (B) 100 percent of the principal amount of the loan is  
13 guaranteed by the United States or an agency or instrumentality  
14 of the United States;

15 (8) must be

16 (A) at least partially guaranteed by the United States  
17 or an agency or instrumentality of the United States, subject to  
18 the provisions of AS 44.88.158;

19 (B) financed from the proceeds of bonds; or

20 (C) expected by the authority to be financed from the  
21 proceeds of bonds.

22 \* Sec. 2. AS 44.88.159(c) is amended to read:

23 (c) The interest rate to be received by the authority on a  
24 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-  
25 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from  
26 the proceeds of the sale of a series of bonds is the lesser of (1) the  
27 prevailing prime rate adopted by the United States Small Business  
28 Administration; (2) Moody's Investors Service Aa corporate bond yield  
29 index; or (3) such other index as established by regulation of the

1        authority. The interest rate to be received by the authority on a  
2        federally guaranteed loan purchased by the authority may be either  
3        floating or fixed [EQUAL TO THE MOST RECENT INDEX OF Aa CORPORATE BOND  
4        YIELD AVERAGES AS PUBLISHED BY MOODY'S INVESTORS SERVICE].

5        \* Sec. 3. AS 44.88.165 is repealed and reenacted to read:

6                Sec. 44.88.165. DELINQUENT LCANS. The authority shall adopt  
7        regulations to describe the circumstances under which it will discon-  
8        tinue purchasing loans from a financial institution because of exces-  
9        sive delinquencies among the loans previously purchased from the  
10       financial institution. In adopting the regulations, the authority  
11       shall take into consideration its delinquency experience with loans it  
12       has purchased from all financial institutions. The authority may  
13       include in the regulations other remedies it considers appropriate as  
14       alternatives to the discontinuance of purchasing loans from the finan-  
15       cial institution.

16       \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/3/88  
Referred: Community & Regional  
Affairs and Finance

5-1668A

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2

HOUSE BILL NO. 429

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to an optional exemption from munic-  
7 ipal property taxation."

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

9 \* Section 1. AS 29.45.050 is amended by adding a new subsection to  
10 read:

11 (1) A municipality may by ordinance exempt or partially exempt  
12 from taxation real property from which an improvement that is more  
13 than 30 years old has been removed if the removal occurs after  
14 June 1, 1988. An exemption under this subsection may remain in effect  
15 for no more than 10 years and only until a new improvement is  
16 constructed on the property.



1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2

HOUSE BILL NO. 430

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the neighborhood business devel-  
7 opment program; and providing for an effective date."

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

9 \* Section 1. PURPOSE. The purpose of AS 44.33.431 - 44.33.433, added  
10 by sec. 2 of this Act, is to promote the economic development of commercial  
11 neighborhoods in the state's principal cities by financial institutions,  
12 relying on local initiative for the specific design of local programs.

13 \* Sec. 2. AS 44.33 is amended by adding new sections to read:

14 ARTICLE 6A. NEIGHBORHOOD BUSINESS DEVELOPMENT PROGRAM.

15 Sec. 44.33.431. NEIGHBORHOOD BUSINESS DEVELOPMENT FUND. There  
16 is created the neighborhood business development fund, to be adminis-  
17 tered by the commissioner. The commissioner shall deposit to the  
18 credit of the fund

19 (1) grants and contributions to the fund; and

20 (2) appropriations to the fund.

21 Sec. 44.33.432. POWERS OF THE DEPARTMENT. (a) The commissioner  
22 may use money in the fund to make grants to nonprofit development  
23 corporations that qualify for assistance from the Neighborhood Rein-  
24 vestment Corporation organized under 42 U.S.C. 8101-8107 (Neighborhood  
25 Reinvestment Corporation Act), for purposes of neighborhood housing  
26 services, community revitalization, and economic development projects  
27 in a city that has more than 20,000 persons.

28 (b) The commissioner may adopt regulations necessary to carry  
29 out the department's functions under AS 44.33.431 - 44.33.433.

1           Sec. 44.33.433. DEFINITIONS. In AS 44.33.431 - 44.33.433  
2           (1) "commissioner" means the commissioner of commerce and  
3           economic development;  
4           (2) "department" means the Department of Commerce and  
5           Economic Development;  
6           (3) "fund" means the neighborhood business development fund  
7           established in AS 44.33.431.  
8       \* Sec. 3. AS 44.33.020 is amended by adding a new paragraph to read:  
9           (30) administer the neighborhood business development  
10          program under AS 44.33.431 - 44.33.433.  
11       \* Sec. 4. This Act takes effect July 1, 1988.

Funding Information  
General Fund \$3,000,000  
Other Funds -0-  
\$3,000,000

BY THE LABOR AND  
COMMERCE COMMITTEE

1 IN THE HOUSE

2

HOUSE BILL NO. 431

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act making an appropriation to the neighborhood  
7 business development fund: and providing for an  
8 effective date."

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

10 \* Section 1. The sum of \$3,000,000 is appropriated from the general  
11 fund to the Department of Commerce and Economic Development for the neigh-  
12 borhood business development fund (AS 44.33.431).

13 \* Sec. 2. This Act takes effect on the effective date of an Act estab-  
14 lishing the neighborhood business development fund that is enacted by the  
15 Fifteenth Alaska State Legislature.



BY DONLEY, ELLIS, BOUCHER, KOPONEN,  
FURNACE, MENARD, BROWN, GRUENBERG,  
BOYER, COLLINS, ULMER, HUDSON AND  
ZAWACKI

1 IN THE HOUSE

2

HOUSE BILL NO 432

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corpo-

7

ration to accept trades in certain cases; and provid-

8

ing for an effective date."

9

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

10

\* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds

11

that a sizeable proportion of the residents of the state have mortgages

12

that exceed both the present value of the property and the present ability

13

of the mortgagors of the property to make the payments agreed to in the

14

past. The purpose of this Act is to encourage the Alaska Housing Finance

15

Corporation to use creative solutions to the present crisis in the housing

16

market and, at the same time, to permit the corporation to seek the dis-

17

posal of surplus residences within the corporation's inventory.

18

(b) The Alaska Housing Finance Corporation may permit mortgagors who

19

are experiencing difficulty in meeting their mortgage payments to return

20

the residence and its mortgage to the Alaska Housing Finance Corporation

21

and to enter into a new mortgage for different residential property subject

22

to the control of the corporation at rates that are more within the ability

23

of the mortgagors.

24

(c) The Alaska Housing Finance Corporation may also permit a mortga-

25

gor who is willing to accept the responsibility for a larger mortgage to

26

offer an existing residence and its mortgage to the corporation and enter

27

into a new mortgage for different residential property subject to the

28

control of the corporation.

29

\* Sec. 2. This Act is repealed July 1, 1991.

1      \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2

HOUSE BILL NO. 433

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act establishing a moratorium on judicial and  
7 nonjudicial foreclosures; and providing for an effective date."  
8

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

10 \* Section 1. LEGISLATIVE DETERMINATION AND FINDINGS. (a) The legisla-  
11 ture determines the present emergency in the state requires that it enact  
12 legislation granting the courts of the state emergency authority to deal  
13 with the economic emergency facing the state. The legislature further  
14 determines that the following legislation does not impair the obligation of  
15 contract guaranteed under the Constitution of the United States or of the  
16 State of Alaska when it enacts legislation within its police power and  
17 within its reserved power to protect its sovereignty, its government, its  
18 people, and their welfare against exigencies that may arise in the present  
19 great emergency.

20 (b) The legislature finds that the state is experiencing a great  
21 economic crisis and that it is in the public interest to declare a mora-  
22 torium on the foreclosure of certain liens on property in the state. The  
23 legislature finds that among the reasons for the declaration of the mora-  
24 torium as provided in this Act are the following purposes:

25 (1) to give the owner of mortgaged property protection during  
26 the emergency;

27 (2) to afford relief to mortgagors finding themselves in oppres-  
28 sed and straitened circumstances due to the economic conditions in the  
29 state;



1           (3) to prevent valuable property from being sold at distressed  
2 prices;

3           (4) to prevent a sale or foreclosure of property at a time when  
4 there is no market for the property and limited opportunities for refinanc-  
5 ing;

6           (5) to prevent double recoveries by mortgagees; and

7           (6) to prevent creditors, as well as debtors, from suffering  
8 unnecessary losses resulting from the economic conditions in the state.

9       \* Sec. 2. NONJUDICIAL FORECLOSURES. (a) In a nonjudicial foreclosure  
10 of a mortgage or deed of trust where the period for the redemption by the  
11 mortgagor or trustor has not expired, the owner of the property may apply  
12 to the superior court for an order delaying the expiration of the period  
13 for redemption or other proceedings related to the foreclosure until one  
14 year after the effective date of this Act. Until one year after the effec-  
15 tive date of this Act, the owner of the property has the exclusive right to  
16 redeem the property and is entitled to possession of the property.

17       (b) The superior court, on an application for an extension of the  
18 period of redemption or of other proceedings related to the foreclosure  
19 under (a) of this section, shall issue an order delaying the expiration of  
20 the period for redemption on its determination, after notice and an oppor-  
21 tunity for a hearing, that the owner of the property has agreed to and has  
22 made the payment of a reasonable rental for the property for the period.  
23 The reasonable rental shall be determined by the court based on the reason-  
24 able economic value of the property on the date of the request, the past-  
25 due or anticipated expenses of taxes, insurance, and other amounts required  
26 to preserve the property, and the payment by the owner of the amounts due  
27 as principal under the mortgage.

28       (c) If the owner of the property subject to an order issued under (b)  
29 of this section fails to comply with the order, the order extending the

1 period of redemption may be set aside after notice and an opportunity for a  
2 hearing.

3 (d) The provisions of (a) - (c) of this section supersede, for one  
4 year after the effective date of this Act, the provisions of any other law  
5 inconsistent with this section.

6 \* Sec. 3. JUDICIAL FORECLOSURES. (a) In a judicial foreclosure of a  
7 mortgage or deed of trust where the period for the redemption by the mort-  
8 gagee or trustor has not expired under AS 09.35.250, other law, or under  
9 the mortgage or deed of trust, the owner of the property may apply to the  
10 superior court for an order delaying the expiration of the period for  
11 redemption or other proceedings related to the foreclosure until two years  
12 after the effective date of this Act. Until two years after the effective  
13 date of this Act, the owner of the property has the exclusive right to  
14 redeem the property and is entitled to possession of the property.

15 (b) The superior court, on an application for an extension of the  
16 period of redemption under (a) of this section, shall issue an order delay-  
17 ing the expiration of the period for redemption on its determination, after  
18 notice and an opportunity for a hearing, that the owner of the property has  
19 agreed to and has made the payment of a reasonable rental for the property  
20 for the period. The reasonable rental shall be determined by the court  
21 based on the reasonable economic value of the property on the date of the  
22 request, the past-due or anticipated expenses of taxes, insurance, and  
23 other amounts required to preserve the property, and the payment by the  
24 owner of the amounts due as principal under the mortgage.

25 (c) If the owner of the property subject to an order issued under (b)  
26 of this section fails to comply with the order, the order extending the  
27 period of redemption may be set aside after notice and an opportunity for a  
28 hearing.

29 (d) The provisions of (a) - (c) of this section supersede, for two

1 years following the effective date of this Act, the provisions of any other  
2 law inconsistent with this section.

3 \* Sec. 4. If the period for the redemption by the mortgagor or trustor  
4 expires within 30 days after the effective date of this Act, the period for  
5 the redemption is extended to 30 days after the effective date of this Act.

6 \* Sec. 5. In this Act, "property" means real property and vessels.

7 \* Sec. 6. This Act is repealed two years after the effective date of  
8 this Act.

9 \* Sec. 7. This Act takes effect immediately under AS 01.10.070(c).



BY MENARD, LARSON AND  
ZAWACKI

1 IN THE HOUSE

2 HOUSE BILL NO. 434

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to municipal development and rede-  
7 velopment."

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

9 \* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:  
10 (49) AS 29.35.035 (development and redevelopment proj-  
11 ects).

12 \* Sec. 2. AS 29.35 is amended by adding a new section to read:

13 Sec. 29.35.035. DEVELOPMENT AND REDEVELOPMENT PROJECTS. (a) A  
14 municipality may undertake development and redevelopment projects in  
15 the municipality and issue bonds for development or redevelopment  
16 purposes in blighted areas.

17 (b) A municipality may by ordinance create a public corporation  
18 to exercise all or some of the powers authorized under (a) of this  
19 section. The corporation so established

20 (1) is an instrumentality of the municipality, but has a  
21 legal existence independent of and separate from the municipality; and

22 (2) has continuing succession by its corporate name until  
23 terminated by ordinance.

24 (c) A municipality may provide by ordinance that the tax incre-  
25 ment from the taxes levied each year by or on behalf of the municipal-  
26 ity on the property in a development or redevelopment project shall be  
27 used to repay the principal and interest on bonds, notes, and other  
28 indebtedness that is incurred for the project. To enable and assist a  
29 public corporation to repay bonds, notes, and other indebtedness for a

1 development or redevelopment project, the municipality may irrevocably  
2 pledge the tax increment from the project for the payment of debt  
3 service on the bonds, notes, or other indebtedness issued to finance  
4 the project. In this subsection "tax increment" means the portion of  
5 the tax that is attributable to the difference between the value of  
6 the property shown on the taxing agency's assessment roll for the year  
7 when the taxes are levied and the value of the property shown on the  
8 taxing agency's last assessment roll that was equalized before the  
9 project was authorized.

10 (d) This section applies to home rule and general law municipal-  
11 ities.

1 IN THE HOUSE

BY PETTYJOHN

2

HOUSE BILL NO. 457

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the Alaska stabilization assis-  
7 tance program; and providing for an effective date."

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

9 \* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose  
10 of the Alaska stabilization assistance program is to promote the stabi-  
11 lization of real property values in the state.

12 (b) The Alaska stabilization assistance fund is established in the  
13 Alaska Industrial Development and Export Authority. The authority may use  
14 money appropriated to the fund to carry out the purposes of this section.  
15 An appropriation to the Alaska stabilization assistance fund lapses to the  
16 fund from which it was appropriated July 1, 1992, unless specified other-  
17 wise in the appropriation act. Other receipts shall be separately account-  
18 ed for and deposited into the general fund. Each year the authority shall  
19 notify the legislature of the amount of these receipts and the legislature  
20 may appropriate that amount into the Railbelt energy fund established under  
21 AS 37.05.153.

22 (c) To encourage lenders not to attempt to dispose of real property  
23 in the state that has been foreclosed upon or otherwise acquired through  
24 actions taken on defaulted loans until the real estate market in the state  
25 becomes more stable, the authority may enter into contracts to provide for  
26 the management of the property. However, the authority may provide for the  
27 management of property only through June 30, 1992.

28 \* Sec. 2. This Act is repealed July 1, 1992.

29 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).



Introduced: 2/11/88  
Referred: Labor & Commerce  
and Finance

5-1889A

|                            |                     |
|----------------------------|---------------------|
| <u>Funding Information</u> |                     |
| General Fund               | \$15,000,000        |
| Other Funds                | -0-                 |
|                            | <u>\$15,000,000</u> |

1 IN THE HOUSE

BY PETTYJOHN

2

HOUSE BILL NO. 458

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act making a special appropriation to the Alaska  
stabilization assistance fund; and providing for an  
effective date."

8

9

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

10

\* Section 1. The sum of \$15,000,000 is appropriated from the Railbelt  
energy fund (AS 37.05.153) to the Alaska stabilization assistance fund.

11

12

\* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the  
Railbelt energy fund (AS 37.05.153) on July 1, 1992.

13

14

\* Sec. 3. This Act takes effect on the effective date of a version of  
an Act enacted by the Fifteenth Alaska State Legislature establishing the  
Alaska stabilization assistance fund.

15

16

#22

There are two drafts of this  
one. Yours with criteria and the  
first without.

BY HALFORD

IN THE SENATE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act providing interim payment reductions of the monthly mortgage payments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; and providing for an effective date."

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

\* Section 1. FINDINGS. The legislature finds that

(1) a sizeable proportion of the residents of the state have mortgages that exceed the present ability of the mortgagors of the property to make the payments agreed to in the past;

(2) a substantial number of the mortgagors most heavily burdened with mortgage loan payments have been delinquent in the payments, and some have contemplated abandonment of the residences and forfeiture of the title to the lending institution;

(3) direct interim relief to the mortgagors who are most heavily burdened should allow most of them to continue to meet mortgage loan payment obligations, thereby substantially reducing the rate of abandonment and forfeiture of residential properties;

(4) it is in the interests of the state to take extraordinary action to provide relief to the mortgagors who are most heavily burdened with mortgages supported in part by financial assistance from the principal state lending agency in a way that provides a measure of interim relief for payments without reducing the mortgagor's debt obligations.

\* Sec. 2. REDUCTION OF MONTHLY MORTGAGE PAYMENTS ON CERTAIN OUTSTANDING

1 MORTGAGE LOANS PURCHASED BY THE ALASKA HOUSING FINANCE CORPORATION. (a)  
2 Notwithstanding the terms and conditions of the mortgage agreement entered  
3 into between the mortgagor and lender, the monthly mortgage payment payable  
4 by a mortgagor qualifying under (b) of this section on a mortgage loan that  
5 qualifies under (c) of this section that is outstanding on July 1, 1988, is  
6 adjusted as follows:

7 (1) for a loan whose loan-to-value ratio is 90 percent or less,

8 (A) if the mortgagor's total payment ratio is greater than  
9 28 percent but does not exceed 30 percent, the mortgagor's total  
10 monthly mortgage payment is reduced by an amount that will reduce the  
11 total payment ratio to 28 percent;

12 (B) if the mortgagor's total payment ratio is greater than  
13 30 percent, the total monthly mortgage payment is reduced by an amount  
14 that will reduce the total payment ratio by two percentage points;

15 (2) for a loan whose loan-to-value ratio is greater than 90  
16 percent,

17 (A) if the total monthly mortgage payment exceeds the  
18 maximum total payment ratio for that loan by two percentage points or  
19 less, the total monthly mortgage payment is reduced by an amount that  
20 will reduce the monthly mortgage payment to the maximum total payment  
21 ratio;

22 (B) if the total monthly mortgage payment exceeds the maximum  
23 total payment ratio for that loan by more than two percentage points,  
24 the total monthly mortgage payment is reduced by an amount that will  
25 reduce the total payment ratio by two percentage points.

26 (b) The provisions of this section apply to a mortgagor who

27 (1) if employed, involuntarily lost employment after June 30,  
28 1987; and

29 (2) if self-employed, lost substantial income after June 30.



1 1987, because of the decline of the economy of the state or the community  
2 in which the person is self-employed.

3 (c) The provisions of this section apply to mortgage loans for resi-  
4 dential housing purchased by the Alaska Housing Finance Corporation through

5 (1) the special mortgage loan purchase program under AS 18.56.-  
6 098;

7 (2) the simplified refinancing mortgage loan purchase program  
8 under AS 18.56.102; or

9 (3) the nonconforming housing loan program under AS 18.56.106.

10 (d) The adjustment made under (a) of this section

11 (1) applies to mortgage loan payments payable by a qualifying  
12 mortgagor from July 1, 1988, through June 30, 1990;

13 (2) provides interim payment reduction and is not intended to  
14 affect the debt obligation of the mortgagor on the mortgage loan.

15 (e) The Alaska Housing Finance Corporation shall enter into agree-  
16 ments with lending institutions from which it has purchased mortgages and  
17 with persons who service mortgage loan payments to provide the adjustments  
18 required under (a) of this section.

19 (f) In this section

20 (1) "maximum total payment ratio" means the limit of the total  
21 payment ratio set by the Alaska Housing Finance Corporation as a condition  
22 for the corporation's acquisition of the loan;

23 (2) "total payment ratio" means the total monthly first mortgage  
24 payment and, when applicable, any secondary financing, homeowners' associa-  
25 tion charge, and space rent, expressed as a percentage of the mortgagor's  
26 allowable gross income.

27 \* Sec. 3. This Act takes effect July 1, 1988.  
28  
29

**DRAFT**

5-1794A  
Chenoweth  
2/3/88

1 IN THE SENATE

BY FAIKS

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing a temporary reduction of the rate  
7 of interest payable by mortgagors on mortgage loans  
8 purchased by the Alaska Housing Finance Corporation;  
9 and providing for an effective date."

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

11 \* Section 1. FINDINGS. The legislature finds that

12 (1) a sizeable proportion of the residents of the state have  
13 mortgages that exceed the present ability of the mortgagors of the property  
14 to make the payments agreed to in the past;

15 (2) a substantial number of mortgagors burdened with mortgage  
16 loan payments have been delinquent in the payments, and some have contem-  
17 plated abandonment of the residences and forfeiture of the title to the  
18 lending institution;

19 (3) direct interim relief to mortgagors should allow most mort-  
20 gagors to continue to meet mortgage loan payment obligations, thereby  
21 substantially reducing the rate of abandonment and forfeiture of residen-  
22 tial properties;

23 (4) it is in the interests of the state to take extraordinary  
24 action to provide relief to mortgagors with mortgages supported in part by  
25 financial assistance from the principal state lending agency.

26 \* Sec. 2. REDUCTION OF INTEREST PAYABLE ON OUTSTANDING MORTGAGE LOANS  
27 PURCHASED BY THE ALASKA HOUSING FINANCE CORPORATION. (a) Notwithstanding  
28 the terms and conditions of the mortgage agreement entered into between the  
29 mortgagor and lender, the rate of interest payable by a mortgagor on a

1 mortgage loan for residential housing purchased by the Alaska Housing  
2 Finance Corporation through the special mortgage loan purchase program  
3 under AS 18.56.098, the simplified refinancing mortgage loan purchase  
4 program under AS 18.56.102, or the nonconforming housing loan program under  
5 AS 18.56.106 that is outstanding on July 1, 1988, is reduced by two per-  
6 centage points for mortgage loan payments due from July 1, 1988, through  
7 June 30, 1990.

8 (b) The Alaska Housing Finance Corporation shall enter into agree-  
9 ments with lending institutions from which it has purchased mortgages and  
10 with persons who service mortgage loan payments to provide the mortgage  
11 loan interest rate adjustment required by (a) of this section.

12 \* Sec. 3. This Act takes effect July 1, 1988.  
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# Alaska State Legislature

Senate Advisory Council



PO Box V  
State Capitol  
Juneau, Alaska 99811  
Phone: (907) 465-3114

## MEMORANDUM

TO: Anchorage Delegation  
Alaska State Senate

FROM: Sheila F. Helgath, PhD *SFH*  
Senate Advisory Council

DATE: January 28, 1988

SUBJECT: Summary of the Role of Public Housing in Market Stabilization  
Anchorage, Alaska, Solutions and Proposals by Alaska State Building  
Authority

Senate President Faiks requested that the Senate Advisory Council summarize the Role of Public Housing in Market Stabilization Anchorage, Alaska, Solutions and Proposals which is the large red document you received recently from the Alaska State Building Authority. The attached memorandum is that summary. Please contact Senate Advisory Council if you have further questions regarding the summary.

JF:SFH:  
Attachment

# Alaska State Legislature

Senate Advisory Council



PO. Box V  
State Capitol  
Juneau, Alaska 99811  
Phone: (907) 465-3114

## MEMORANDUM

TO: Senator Jan Faiks

FROM: Sheila F. Helgath, PhD *LZH*  
Alaska State Senate Advisory Council

DATE: January 27, 1988

SUBJECT: Summary of The Role of Public Housing in Market Stabilization  
Anchorage Alaska, Solutions and Proposals IR# 88-003219

You have requested that the report The Role of Public Housing in Market Stabilization, Anchorage Alaska, Solutions and Proposals be summarized and the major points be highlighted. The following is a description of the proposal with pertinent information regarding the housing market in Anchorage. The proposal contains numerous articles which illustrate the condition of Anchorage's housing market and should be considered a good reference. Additional information is presented regarding housing conditions statewide to conclude this memorandum.

### A) The Anchorage Housing Market

In October there were nearly 14,000 vacant housing units in Anchorage. Table 1. Vacancy Rates in the Anchorage Area July 1987 illustrates that the highest vacancies are in larger apartment units. Newspaper and magazine articles included in the appendix of the document indicate that older units and the lower cost units are a part of this phenomena. The vacancy rates are similar to vacancy rates in 1980 after the TransAlaska Pipeline construction boom. Because of the vacancies and subsequent rent values in the market place, low income housing that would normally be full is experiencing a decline in occupancy.

Table 1. Vacancy Rates in the Anchorage Area July 1987

|                          | <u>Vacancy Rate</u> | <u># Units Vacant</u> | <u>Total # Units</u> |
|--------------------------|---------------------|-----------------------|----------------------|
| Single family residences | 7.1%                | 2,806                 | 39,520               |
| 2-4 units per building   | 16.5%               | 3,550                 | 21,516               |
| 5 or more units          | 26.0%               | 3,707                 | 22,464               |
| Mobile homes             | 19.9%               | 1,552                 | 7,798                |

Source: 1987 Housing and Population Surveys Municipality of Anchorage

The situation in Anchorage has resulted in declining housing values since housing prices respond to supply and demand. When prices fall below 20% of purchase prices the rate of defaults and foreclosures increase dramatically. In other areas affected by declining oil revenues and in a highly fragmented market, housing values have fallen as much as 50% and 60%. Several solutions have been presented which could help mitigate the situation. Because the State of Alaska, through the Alaska Housing Finance Corporation, is the major actor it may be possible to hold properties back while natural growth occurs. Holding properties is expensive, one estimate presented was between \$18 and \$30 per day. If a natural growth rate of 2 percent occurs the vacancies would be eliminated in 10 years. Another suggestion is the demolition of substandard housing to decrease the glut of housing (Green, 1988). The proposal below reflects the latter suggestion.

B) The ASBA Proposal

The proposal is to demolish Willow Park, a Federally funded 150 unit low income housing project, and to relocate 80 of the 135 families, who are currently occupants, in single family residences purchased from institutional holders backlog of foreclosed properties. The Alaska State Building Authority (ASBA) is the current manager of Willow Park. Willow Park is a 35 year old set of 20, two story apartment buildings and two administrative buildings located at 9th and Willow Street in Anchorage. At present 80 percent of the 135 families who live in the project are Native Alaskans. It is proposed that HUD provide the funding for the 80 homes and that either the State of Alaska or the Municipality of Anchorage provide the funding for demolition.

The project can not proceed until HUD's regional office in Seattle gives approval for demolition. Approval will be based upon criteria in HUD's Handbook on Public Housing Demolition and Resolatory Procedures. Questions such as the condition of the housing stock, alternative low income housing, location, and socio-economic impact needs to be addressed. With public hearing processes and legal requirements for moving tenants it could take as long as two years to complete the transition.

The decision to request demolition of the project was based upon several factors: building code violations, cost of renovation exceeding the value of the properties, outdated architectural design for occupant needs, and an adequate supply of low income housing in the private market. The project was cited on June 11, 1987 for building code violations by the Municipality of Anchorage. Electric services, fire safety, venting, and vapor barriers are the code violation problems. In addition the physical layout of the apartments, with bedrooms upstairs make the project unavailable for elderly and handicapped people who use wheelchairs. Finally asbestos has been found in the project and needs to be removed.

The maximum amount allowed by HUD for renovation of Willow Park would be \$7,683,700 while the estimate for renovation is \$12,769,041. ASBA applied for money to do the renovation last year and was denied by HUD. HUD regulations stipulate that renovations should not cost more than 75% of the value of the project. Demolition costs are \$4,829,592 of which \$2,624,904 are for asbestos abatement which will occur because of health liabilities



whether the building is renovated, demolished or left as is. Currently the value of the land is \$1.72 million and the insurance coverage is \$11.7 million although the Municipality of Anchorage assess the buildings at \$0.

C) Issues and Analysis

The project land status is an issue. Originally the land was transferred by the Federal government to the City of Anchorage. A 1918 Federal executive order authorized sale of a portion of the land and the City obtained patent #873718 on July 1922 for a low income housing project. The patent stipulated that if the land was not used for that purpose, it would revert to the United States. The Municipality of Anchorage has a similar agreement with the Alaska State Building Authority. The City would probably place the property in the Heritage Land Bank which has indicated that the highest use for the area may be as a park.

Socio-economic concerns were minimally addressed in the proposal. The proposed hearings and more specific planning should present details pertaining to these issues. At present they can be summarized as a negative impact on local business servicing the area and loss of school children in the Denali School. These impacts may be offset in other areas by the new residents. However, the proposal indicated that the neighborhood is in transition from residential to commercial and that many of the services provided the residents of Willow Park have recently moved.

The final issues are whether or not HUD will approve the 80 homes being requested, allow the demolition, and who will pay for the demolition. There is an implication that employees from the jobs bill might be used for the demolition. HUD officials in Alaska seem to be positive about the proposal (but are not the ones who will make the final decision) because the proposal reflects national trends to place low income housing throughout the community instead of in large blocks where ghetto and slum conditions are more likely to be created (Craig and Kulick, pers. com. 1988). Because of the homeless initiative in Congress, HUD expects to have a larger allotment of units than in the past. A misleading statement in the document gives the impression that ASBA has not received monies for the last 9 years. ASBA has received federal monies but much of that has been in specific programs for the elderly and is distributed on a competitive basis to the larger communities in the state.

The proposal does not layout how the 80 families will be selected or how the 80 individual units will be selected. It is likely that there are HUD procedures in place but those questions should be asked. Nor does the document present any information on how the current residents feel about the proposal. No analysis is made as to the possible effect on overall housing market conditions that this proposal will have. The effect while being positive will probably be small since it involves only 135 units of the approximately 14,000 vacancies. If one type of unit were selected for all of the 80 HUD homes it would probably influence that portion of the market segment, for example, the 2-4 unit segments.

This proposal points out the need for a comprehensive statewide housing strategy and policy. Throughout the state housing is an issue, whereas the urban areas at present tend to have too much housing and falling values; the

Senator Failor  
January 27, 1988  
Page 4

rural areas of Alaska have too little. An analysis of BIA data last year by Rural Research Agency showed that conditions in rural Alaska had only slightly improved from the 1980 census when 80% of the houses were considered substandard. The 1985 BIA information showed that 9,135 of the houses with at least one Native occupant were substandard (needed repairs) and 4,710 homes needed to be replaced or built. In addition rural regions which had the lowest participation in state housing loan programs had the greatest housing needs (particularly along the Yukon) (Helgath, 1987).

To summarize the proposal has merit and should be given further scrutiny, though it alone will not solve Anchorage housing market situation.

#### BIBLIOGRAPHY AND PERSONEL COMMUNICATIONS

Craig, Colleen, HUD Housing Specialist. Telephone Interview regarding HUD demolition requirements January 26, 1988.

Green, G. Hayden. Jan. 11, 1988. "Try this for Real Estate." in Alaska Journal of Commerce. Vol. 12 No. 2.

Helgath, Sheila Fay, Legislative Analyst. Memorandum to Senator W. Hensley on Rural Housing Need and Revenue Bond Financing on February 2, 1987.

Kulick, Michael, HUD Housing Director. Telephone Interview regarding HUD demolition requirements January 26, 1988.

DRAFT

1 IN THE SENATE

BY HALFORD

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a moratorium on judicial and  
7 nonjudicial foreclosures; and providing for an effective date."  
8

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

10 \* Section 1. LEGISLATIVE DETERMINATION AND FINDINGS. (a) The legisla-  
11 ture determines the present emergency in the state requires that it enact  
12 legislation granting the courts of the state emergency authorities to deal  
13 with the economic emergency facing the state. The legislature further  
14 determines that the following legislation does not impair the obligation of  
15 contract guaranteed under the Constitution of the United States or of the  
16 State of Alaska when it enacts legislation within its police power and  
17 within its reserved power to protect its sovereignty, its government, its  
18 people, and their welfare against exigencies that may arise in the present  
19 great emergency.

20 (b) The legislature finds that the state is experiencing a great  
21 economic crisis and that it is in the public interest to declare a mora-  
22 torium on the foreclosure of certain liens on real property in the state.  
23 The legislature finds that among the reasons for the declaration of the  
24 moratorium as provided in this Act are the following purposes:

25 (1) to give the owner of mortgaged property protection during  
26 the emergency;

27 (2) to afford relief to mortgagors finding themselves in oppres-  
28 sed and straitened circumstances due to the economic conditions in the  
29 state;



1 (3) to prevent valuable property from being sold at distressed  
2 prices;

3 (4) to prevent a sale or foreclosure of real property at a time  
4 when there is no market for the property and limited opportunities for  
5 refinancing;

6 (5) to prevent double recoveries by mortgagees; and

7 (6) to prevent creditors, as well as debtors, from suffering  
8 unnecessary losses resulting from the economic conditions in the state.

9 \* Sec. 2. NONJUDICIAL FORECLOSURES. (a) In a nonjudicial foreclosure  
10 of a mortgage or deed of trust where the period for the redemption by the  
11 mortgagor or trustor has not expired, the owner of the property may apply  
12 to the superior court for an order delaying the expiration of the period  
13 for redemption or other proceedings related to the foreclosure until one  
14 year after the effective date of this Act. Until one year after the effec-  
15 tive date of this Act, the owner of the property has the exclusive right to  
16 redeem the property and is entitled to possession of the property.

17 (b) The superior court, on an application for an extension of the  
18 period of redemption or of other proceedings related to the foreclosure  
19 under (a) of this section, shall issue an order delaying the expiration of  
20 the period for redemption or its determination, after notice and an oppor-  
21 tunity for a hearing, that the owner of the property has agreed to and has  
22 made the payment of a reasonable rental for the premises for the period.  
23 The reasonable rental shall be determined by the court based on the reason-  
24 able economic value of the property on the date of the request, the past-  
25 due or anticipated expenses of taxes, insurance, and other amounts required  
26 to preserve the property, and the payment by the owner of the amounts due  
27 as principal under the mortgage.

28 (c) If the owner of the property subject to an order issued under (b)  
29 of this section fails to comply with the order, the order extending the

1 period of redemption may be set aside after notice and an opportunity for a  
2 hearing.

3 (d) The provisions of (a) - (c) of this section supersede, for one  
4 year after the effective date of this Act, the provisions of any other law  
5 inconsistent with this section.

6 \* Sec. 3. JUDICIAL FORECLOSURES. (a) In a judicial foreclosure of a  
7 mortgage or deed of trust where the period for the redemption by the mort-  
8 gator or trustor has not expired under AS 09.35.250, the owner of the  
9 property may apply to the superior court for an order delaying the expira-  
10 tion of the period for redemption or other proceedings related to the  
11 foreclosure until two years after the effective date of this Act. Until  
12 two years after the effective date of this Act, the owner of the property  
13 has the exclusive right to redeem the property and is entitled to pos-  
14 session of the property.

15 (b) The superior court, on an application for an extension of the  
16 period of redemption under (a) of this section, shall issue an order delay-  
17 ing the expiration of the period for redemption on its determination, after  
18 notice and an opportunity for a hearing, that the owner of the property has  
19 agreed to and has made the payment of a reasonable rental for the premises  
20 for the period. The reasonable rental shall be determined by the court  
21 based on the reasonable economic value of the property on the date of the  
22 request, the past-due or anticipated expenses of taxes, insurance, and  
23 other amounts required to preserve the property, and the payment by the  
24 owner of the amounts due as principal under the mortgage.

25 (c) If the owner of the property subject to an order issued under (b)  
26 of this section fails to comply with the order, the order extending the  
27 period of redemption may be set aside after notice and an opportunity for a  
28 hearing.

29 (d) The provisions of (a) - (c) of this section supersede, for two

1 years following the effective date of this Act, the provisions of any other  
2 law inconsistent with this section.

3 \* Sec. 4. If the period for the redemption by the mortgagor or trustor  
4 expires within 30 days after the effective date of this Act, the period for  
5 the redemption is extended to 30 days after the effective date of this Act.

6 \* Sec. 5. This Act is repealed two years after the effective date of  
7 this Act.

8 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).  
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# STATE OF ALASKA THE LEGISLATURE

## LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

### MEMORANDUM

January 20, 1988

SUBJECT: Sale of property in foreclosure  
(Work Order No. 5-1624)

TO: Senator Rick Halford

FROM: Richard A. Bradley  
Legislative Counsel

RECEIVED JAN 20 1988

Theresa Maser has requested that we prepare a bill that would contain a one year prohibition on the sale of property that has gone into a non-judicial foreclosure, and a two-year prohibition on the sale of property that has gone into a judicial foreclosure. I would like to offer you a progress report on the drafting of the measure.

While I was certain that legislatures had enacted mortgage moratoriums before, I was also aware that they seemed facially to violate the constitutional prohibition on the impairment of contracts. Mortgages are, of course, simply contracts that involve the title to land. Art. I, sec. 10, cl. 1 of the U.S. Constitution provides that "No state shall . . . pass any . . . law impairing the obligation of contracts . . . ." Art. I, sec. 15 of the Alaska Constitution is to the same effect.

The answer appears to be that the legislature may enact such laws provided that there is an actual economic emergency, and that the measures contained within the moratorium are limited to those affected by the emergency. Other provisions are suggested in the legal literature and I expect to have such a bill for your consideration in the near future.

If you have any questions, please give me a call.

RAB:bb  
WKB1/079

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

RECEIVED FEB 1 1988

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

MEMORANDUM

January 30, 1988

SUBJECT: Moratorium on judicial and nonjudicial  
foreclosures (Work Order No. 5-1624)

TO: Senator Rick Halford

FROM: Richard A. Bradley *RB*  
Legislative Counsel

*Evan Rasmusen  
Poulet*

I have prepared a bill for you that I believe is responsive to your request.

In my view, a bill simply declaring the moratorium that you requested would not work. And while we seek to draft all bills to withstand close judicial scrutiny, there are some in which that kind of review is inevitable--and this seems to be one.

While the legislature may direct executive agencies to forbear in the collection of amounts due or to accept "production credits" as payment, it seems clear to me that forbearance is not the answer when the state intrudes itself between two private parties; each of whom may be short on funding.

Since the receipt of your request, I have read a number of cases involving moratory legislation. I have found no case where the constitutional challenge to the legislation was sustained if the debt was simply suspended.

The most direct and on point constitutional provision is the "impairment of contracts" problem that I addressed briefly in my earlier memorandum. The provisions are found at art. I, sec. 10, cl. 1 of the U.S. Constitution and art. I, sec. 15 of the Alaska Constitution.

The solution that the court employed during the Great Depression was to state that while the impairment of contracts provision had to be noted, the states nonetheless

retained "their police power and the power to sustain their sovereignty and government, and their existence as states." Des Moines Joint Stock Land Bank v. Nordholm, 253 N.W. 701, 705 (Iowa 1934). Unless the police power was made inferior to the impairment of contracts provision (a problem in some states but not, it seems, in Alaska), the police power was sufficient to uphold the moratory Acts.

The impairment of contracts provision is not the only problem. The cases usually contain allegations that these Acts also deprive the mortgagee-lenders of vested property rights without due process of law and other more generalized arguments. While the property rights argument is not without force, easily the most critical problem is the impairment problem.

The courts address that by concluding that the moratory Acts do not impair the contract; rather, they affect the remedies. The distinction between substantive and procedural effects is not uncommon in these analyses or in the law generally.

But for that argument to work, there needs to be some consideration continuing to flow from the owner-mortgagor to the mortgagee-lender. The usual answer is that the mortgagor-owner remains liable for the taxes that are due on the property as well as for the maintenance of the property. In the usual case not involving commercial or farm property with an income, this usually means that the insurance contract must be maintained in effect.

And the debt itself must be addressed.

Different Acts and the cases construing them employ different concepts, but the common thread is the concept of "economic rent" (not always in those words): the cases recognize that while the terms of an existing mortgage may have been premised on different economic conditions, nevertheless the property has a present economic value to the owner-mortgagor and it is unjust to exclude payments to the mortgagee-lender. Thus, in Home Building and Loan Ass'n v. Blaisdell, 290 U.S. 398, the U.S. Supreme Court approved a law that required the mortgagor-owner to pay "the rental value of the premises as ascertained in judicial proceedings, and this amount is applied to the carrying of the property and to indebtedness on the property." As the Court noted, "The extension (of the period of redemption) is



made upon application to the court, on notice, for an order determining the reasonable rental value of the income on the property involved in the sale, or, if it has no income, then the reasonable rental value of the property, and directing the mortgagor to pay all or a reasonable part of such income or rental value, in or toward the payment of taxes, insurance, interest, mortgage indebtedness at such times and in such manner as shall be determined by the court. Prior to the expiration of the extended period of redemption, the court may revise or alter the terms of the extension as changed circumstances may require."

An Iowa law from that period dealt ambiguously with the obligation of the mortgagor-owner to make payments on the principal or interest due to the mortgagee-lender. Over a strong dissent, the majority of the Iowa Supreme Court construed the law as requiring payments to the lender.

It is said, however, that the Iowa statute does not provide for reasonable compensation to the mortgagee. When the Iowa act is fairly read and due significance is given to all of its provisions, it appears beyond peradventure of doubt that the act contemplates and provides for at least a reasonable rental of the mortgaged premises during the year of redemption. Des Moines Joint Stock Land Bank v. Nordholm, 253 N.W. 710 at 707 (Iowa, 1934).

Other cases are consistent. In Southold Savings Bank v. Fisher, 52 NYS2d 162, (N.Y. Supr. Ct., App. Term 1945), the court was concerned with a similar situation and a similar law: The New York moratory law required the owner of the mortgaged premises to "pay the unpaid principal amount at the rate of one percent per annum" until a specified date and then two percent per annum. The owner was in default of several installments of principal and thus the lender was permitted to sue to recover the entire debt.

[Moratorium statutes] prevented the mortgagees from maintaining an action for the principal only; but a default in the payment of interest and taxes was beyond the protection afforded by such moratorium statutes. The statutes thus effected a legal severance to the extent that if interest and taxes were paid, the principal need not be paid. 52 NYS at 166, quoting from Union Trust Co. of Rochester v. Kaplan, 292 NYS 152, (App. Div.).

Senator Halford  
Page 4  
January 30, 1988

While the court suggests a generalized condition that I do not believe is accurate (except, perhaps, within New York; that it was uniformly true that principal need not be paid under moratoriums), it is true that the cases seem uniformly to require the payment of taxes and insurance and then some economic rent or other concept that results in the payment of amounts due the mortgagee on the debt.

The bill enclosed requires the payment of the principal due under the mortgage.

I note that some moratory bills authorize the governor, by proclamation, to establish or limit the period during which the moratorium is in effect. That was not part of your request and is not included.

Because this legislation should be viewed as questionable apart from the economic emergency that justifies it, I believe that the bill should address the economic emergency. If you have any specifics that might bolster my rhetoric, I would welcome it.

If I may be of further assistance, please advise.

Enclosure

RAB:bb  
wkb2/015



# Alaska State Legislature

SENATE

*Office of the President*

P.O. Box V  
State Capitol  
Juneau, Alaska 99811  
(907) 465-3755

February 8, 1988

MEMORANDUM

TO: All Committee Members  
Senate Joint Committee on Economic Recovery

FROM: Senator Jan Faiks  
President of the Senate *Jan Faiks*

SUBJECT: Draft Banking Legislation

Enclosed are copies of several items of draft legislation which I had drafted following the January 29th meeting of the committee, as well as brief summaries of the bills and resolutions.

I would like for the committee to consider introducing this legislation this week. If you have any suggestions after reviewing these materials, please let me know.



**SENATE CONCURRENT RESOLUTION**

Urging state agencies that make loans to withhold approval of loans for new construction in areas in which availability of business and commercial facilities and residences substantially exceeds demand.

Requests the Governor to direct appropriate agencies not to make loans for construction of new commercial, industrial, and residential units in communities where there is an oversupply unless demand cannot be met from existing facilities, or unless the local governing body requests a waiver of the moratorium by resolution.

1 IN THE SENATE

2 SENATE CONCURRENT RESOLUTION NO.  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Urging state agencies that make loans to  
6 withhold approval of loans for new  
7 construction in areas in which availa-  
8 bility of business and commercial facil-  
9 ities and residences substantially  
10 exceeds demand.

11 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

12 WHEREAS many state agencies have been authorized by law to make loans  
13 to finance and provide the means to finance industrial, manufacturing, and  
14 business enterprises, and to expand the supply of adequate residential  
15 housing in the state; and

16 WHEREAS, in recent years, these loan programs have operated success-  
17 fully and have been the state's chief catalysts in financing and developing  
18 industrial, manufacturing, and business facilities, a significant source of  
19 employment opportunity for many Alaskans, and in marketing of a wide range  
20 of housing for state residents; and

21 WHEREAS plummeting oil prices and the erosion of business vitality  
22 during the past two years have required the state to adjust to changing  
23 times, to act to stabilize the state's economy, and to protect the sources  
24 of property value that are the principal means by which municipalities  
25 finance essential public services; and

26 WHEREAS there now exists in many Alaska communities an excess of  
27 business and commercial facilities and residences; and

28 WHEREAS the excess capacity of these improvements in some communities  
29 is so substantial as to warrant a moratorium on new construction in order

1 to sustain value in the existing supply of facilities and residences; and  
2 WHEREAS state policy should preserve the value of the existing supply  
3 of facilities and residences in order to stabilize real property assessed  
4 valuations that support municipal ad valorem taxes; and

5 WHEREAS state loan programs that are the principal sources of finan-  
6 cial assistance for new construction should be restrained in order to  
7 stabilize the economy and protect the values of existing improvements;

8 BE IT RESOLVED that the Alaska State Legislature respectfully requests  
9 the Governor to direct the appropriate commissioners and directors of  
10 agencies and authorities that have authority to make loans to refrain from  
11 financing construction of new commercial, industrial, and residential  
12 facilities in communities having substantial excess capacity among these  
13 improvements unless demand for a proposed commercial, industrial, or resi-  
14 dential project cannot be satisfied from excess stock within the community  
15 or until the governing body of the municipality requests, by resolution, a  
16 waiver of the moratorium in order to expand the supply of these improve-  
17 ments.  
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**SENATE CONCURRENT RESOLUTION**

Relating to opportunities offered by the present crisis in residential housing.

This resolution requests that appropriate State agencies to; (1) remove substandard, low income housing from the market, and to convert other property to low income housing so there is no additional cost to the low income recipient, (2) ship vacant mobile homes out of Alaska, and (3) convert existing unrentable condominiums or similar units to University of Alaska student housing.

1 IN THE SENATE

2 SENATE CONCURRENT RESOLUTION NO.  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Relating to opportunities offered by the  
6 present crisis in residential housing.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS the legislature finds that the state is undergoing a substan-  
9 tial financial crisis in the residential housing market; and

10 WHEREAS the financial crisis has resulted in financial institutions in  
11 the state becoming landlords of many residential housing units; and

12 WHEREAS it has been noted that to some extent the financial insti-  
13 tutions in the state have not yet developed a coherent policy that ad-  
14 dresses this crisis; and

15 WHEREAS it would exacerbate the crisis in the market for residential  
16 housing if the financial institutions in the state were to place these  
17 homes on the market; and

18 WHEREAS much of the vacant and unsalable housing on the market is  
19 substandard and should, if possible, be removed from the market;

20 BE IT RESOLVED by the Alaska State Legislature that the Governor is  
21 respectfully requested to direct the state agencies having responsibilities  
22 for the solutions to the financial crisis in the residential housing market  
23 to

24 (1) remove substandard low income housing from the market and,  
25 where possible, convert other residential property to low income housing at  
26 no additional cost to the residents of low income housing;

27 (2) ship vacant and unsalable mobile homes from the state; and

28 (3) convert vacant and unrentable condominiums or similar units  
29 to housing for students at the University of Alaska.

SENATE CONCURRENT RESOLUTION

Relating to the Alaska Industrial Development and Export Authority.

This resolution requests that AIDEA develop a new program to assist commercial property owners in avoiding foreclosure. The key elements of this program would include selling the commercial properties to AIDEA, with the seller retaining an option to repurchase within 3 years, and allowing the seller to lease the property from AIDEA during this 3 year period.



1 IN THE SENATE

2 SENATE CONCURRENT RESOLUTION NO.  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Relating to the Alaska Industrial Devel-  
6 opment and Export Authority.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS Alaska is currently experiencing a severe economic downturn;  
9 and

10 WHEREAS some owners are experiencing difficulties in making loan  
11 payments on commercial properties and are facing the possibility of losing  
12 commercial properties through foreclosures; and

13 WHEREAS numerous foreclosures on commercial properties will adversely  
14 affect other segments of the Alaska economy;

15 BE IT RESOLVED that the Alaska State Legislature respectfully requests  
16 the Governor to request the Alaska Industrial Development and Export Au-  
17 thority to develop a program to enable owners of commercial properties to  
18 avoid foreclosure by

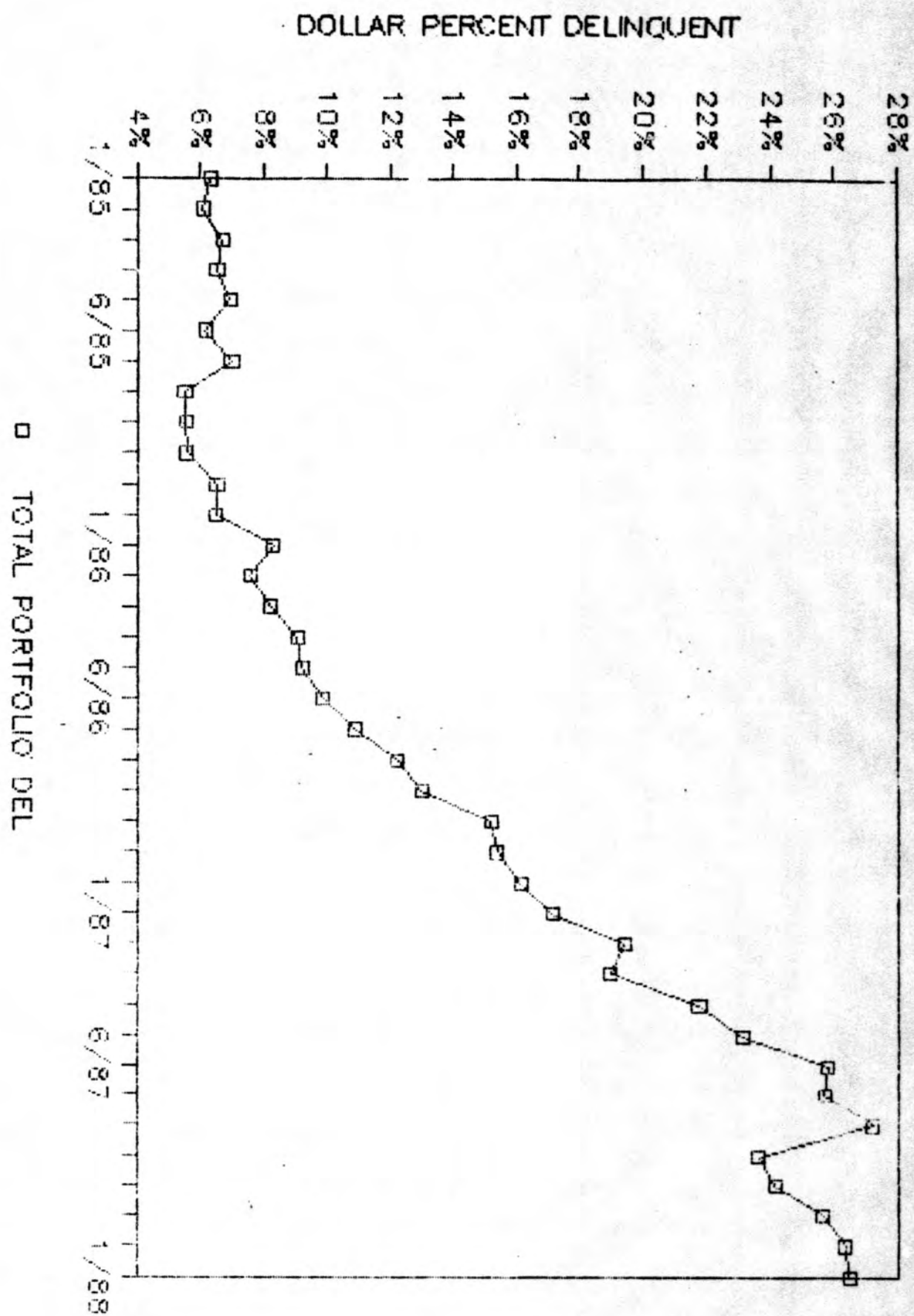
19 (1) selling the properties to the authority while retaining an  
20 option to repurchase the properties within three years; and

21 (2) leasing the properties from the authority during the three-  
22 year period.  
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29

**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY****Income Statement Highlights**

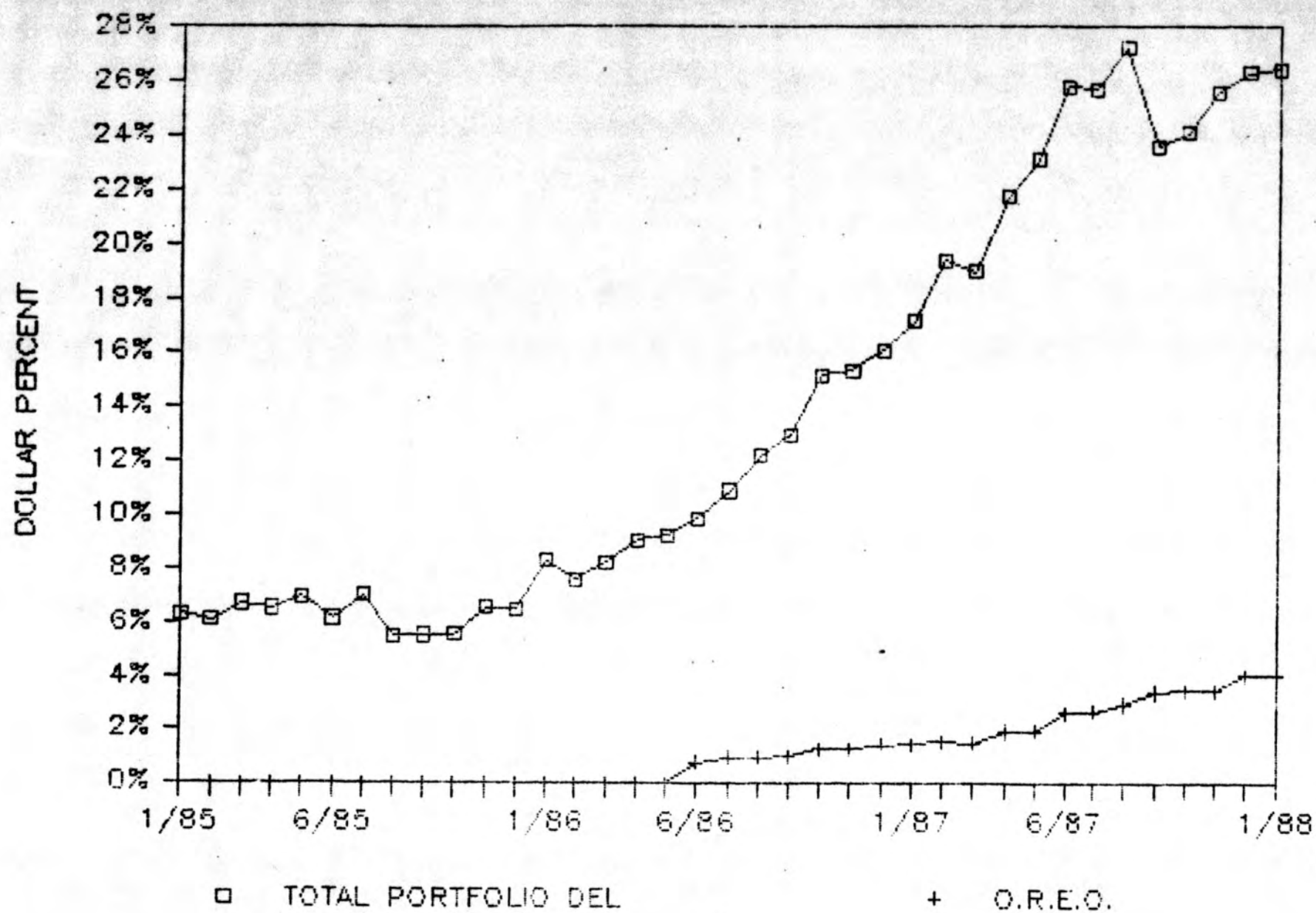
|                                               | <b>Six Months Ended<br/>December 31, 1987</b> | <b>Year Ended December 31,</b> |                    |                    |
|-----------------------------------------------|-----------------------------------------------|--------------------------------|--------------------|--------------------|
|                                               |                                               | <b>1987</b>                    | <b>1986</b>        | <b>1985</b>        |
| <b>Total Revenues</b>                         | <b>24,472,880</b>                             | <b>48,359,225</b>              | <b>54,959,810</b>  | <b>51,812,352</b>  |
| <b>Total Expenses</b>                         | <b>21,313,099</b>                             | <b>34,882,482</b>              | <b>26,084,609</b>  | <b>22,060,125</b>  |
| <b>Net Earnings</b>                           | <b>3,159,781 ✓</b>                            | <b>13,476,743</b>              | <b>28,875,201</b>  | <b>29,752,227</b>  |
| <b>Retained Earnings<br/>at End of Period</b> | <b>160,784,994</b>                            | <b>157,625,213</b>             | <b>144,148,470</b> | <b>115,273,269</b> |

# PORTFOLIO PERFORMANCE





# PORTFOLIO PERFORMANCE



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
GEOGRAPHIC SUMMARY  
FUNDED PARTICIPATIONS - THROUGH 12/31/87

| <u>Location</u> | <u># Loans/Percent</u> |           | <u>\$(000's Omitted)/Percent</u> |           |
|-----------------|------------------------|-----------|----------------------------------|-----------|
| Anchorage       | 249                    | 50        | 161,525                          | 54        |
| South West      | 33                     | 7         | 17,685                           | 6         |
| South East      | 56                     | 10        | 29,415                           | 10        |
| South Central   | 81                     | 16        | 33,000                           | 11        |
| North West      | 4                      | 1         | 3,020                            | 1         |
| North Slope     | 13                     | 3         | 10,545                           | 3         |
| Interior        | <u>63</u>              | <u>13</u> | <u>43,830</u>                    | <u>15</u> |
| TOTALS          | 499                    |           | 299,020                          |           |

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Delinquent Bond Sale Loans by <sup>AREA</sup>~~TYPE~~  
 Distribution of Delinquency  
 As of 12/31/87

| Area          | Number   | %           | Total<br>Delinquent<br>Dollars |
|---------------|----------|-------------|--------------------------------|
| North West    | 1        | .26         | \$ 134,151.96                  |
| North Slope   | 3        | 2.50        | 1,276,175.37                   |
| Interior      | 6        | 5.14        | 2,630,912.03                   |
| South West    | 1        | .79         | 404,592.91                     |
| Anchorage     | 46       | 82.74       | 42,325,238.95 ✓                |
| South Central | 10       | 6.83        | 3,494,248.00                   |
| South East    | <u>2</u> | <u>1.74</u> | <u>891,683.93</u>              |
|               | 69       | 100%        | \$51,157,003.15                |



# Delinquent Bond Sale Loans by Type

As of 12/31/87

| Loan Type                | Number   | %          | Total<br>Delinquent<br>Dollars |
|--------------------------|----------|------------|--------------------------------|
| Office                   | 19       | 26.65      | \$13,634,717.01                |
| Warehouse                | 16       | 18.97      | 9,706,755.34                   |
| Retail/Shopping Center   | 14       | 26.90      | 13,762,340.78                  |
| Hotel/Motel              | 3        | 1.76       | 898,687.23                     |
| Restaurant               | 6        | 6.87       | 3,511,729.54                   |
| Multi-Family             | 7        | 16.78      | 8,585,445.39                   |
| Industrial/Manufacturing | 1        | 1.09       | 556,210.81                     |
| Equipment                | 2        | .55        | 282,006.38                     |
| Vessel                   | <u>1</u> | <u>.43</u> | <u>219,110.67</u>              |
| TOTAL                    | 69       | 100%       | \$51,157,003.15                |

**WORK OUT REPORT 12/31/87  
BOND SALE LOANS**

| Type of Property<br>Location               | AIDEA<br>Balance      | Estimated<br>Value<br>Date | Additional<br>Collateral | Total<br>Original<br>Payment | Total<br>Modified<br>Payment                                | Term                                                            | Status 10/30                                                            |
|--------------------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------|
| Shopping mall<br>North Pole                | \$5,943,671.93<br>80% | \$6,000,000<br>07/87       | \$2,555,000              | \$ 70,426                    | \$35,000                                                    | 06/87 - 05/88                                                   | Current                                                                 |
| Unit apt. complex<br>near                  | \$ 386,755.75<br>90%  | \$ 340,000<br>10/87        | \$ 40,000                | \$ 4,516                     | min<br>\$ 3,000                                             | 10/87 - 03/89                                                   | Current                                                                 |
| Warehouse<br>near                          | \$ 81,184.43<br>90%   | \$ 110,000<br>03/87        | N/A                      | \$ 1,184                     | \$ 850<br>int. only                                         | 05/87 - 11/87                                                   | Paid to 12/01/87                                                        |
| Room motel<br>near                         | \$ 610,151.00<br>90%  | \$1,000,000<br>07/87       | N/A                      | \$ 8,853                     | \$10,600<br>\$ 6,500<br>int. only<br>\$ 7,000<br>add'l pymt | 06/87 - 10/87<br>11/87 - 05/88<br>06/87 - 05/88                 | Paid to 11/01/87<br>Catch up                                            |
| Shopping mall &<br>Pizza Hut<br>North Pole | \$1,336,509.91<br>80% | \$1,650,000<br>06/87       | N/A                      | \$ 15,108                    | \$13,400<br>int. only                                       | 07/87 - 06/89                                                   | Paid to 10/01/87                                                        |
| Commercial<br>mail condo's<br>near banks   | \$1,591,369.13<br>80% | \$1,200,000<br>06/87       | \$ 160,000               | \$ 20,345                    | \$13,000                                                    | 07/87 - 06/89                                                   | Paid to 11/01/87                                                        |
| Ice/warehouse<br>storage                   | \$ 726,561.12<br>90%  | \$ 510,000<br>05/87        | \$ 90,000                | \$ 8,180                     | \$ 3,000                                                    | 11/87 - 10/89                                                   | Modification not in place<br>yet. Paid to 02/01/87                      |
| Ice/warehouse/<br>storage                  | \$1,048,534.48<br>90% | \$ 680,000<br>10/87        | N/A                      | \$ 10,500                    | \$ 1,500                                                    | 11/86 - 10/87                                                   | Paid to 09/01/87<br>Bank negotiating to protect<br>2nd D of T ownership |
| Unit apt. bldg.<br>storage                 | \$1,608,157.24<br>90% | \$1,050,000<br>11/87       | *\$ 938,000              | \$ 15,387.77                 | \$ 6,000<br>\$ 9,000<br>\$17,000<br>\$22,000                | 09/86 - 12/87<br>01/88 - 12/88<br>01/89 - 12/89<br>01/90 - mat. | Paid to 03/01/87<br>Borrowers defaulted                                 |

| Type of Property<br>Location              | AIDEA<br>Balance      | Estimated<br>Value<br>Date | Additional<br>Collateral | Total<br>Original<br>Payment | Total<br>Modified<br>Payment                        | Term                                                            | Status 10/30                            |
|-------------------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------|
| 72 unit apt. bldg.<br>Anchorage           | \$2,723,091.67<br>90% | \$1,800,000<br>11/87       | * Shared                 | \$ 26,561                    | \$12,500<br>\$16,500<br>\$31,000<br>\$40,000        | 09/86 - 12/87<br>01/88 - 12/88<br>01/89 - 12/89<br>01/90 - mat. | Paid to 02/01/87<br>Borrowers defaulted |
| Office condo<br>Juneau                    | \$ 71,749.00<br>90%   | \$ 138,000<br>01/83        | N/A                      | \$ 995                       | \$ 778<br>int. only                                 | 01/87 - 12/87                                                   | Paid to 12/01/87                        |
| Warehouse<br>Wasilla                      | \$ 256,755.01<br>90%  | \$ 170,000<br>07/87        | N/A                      | \$ 3,857                     | \$ 2,495<br>int. only                               | 04/87 - 03/88                                                   | Paid to 03/01/87<br>Borrowers defaulted |
| Wendys<br>Eagle River                     | \$ 755,292.01<br>90%  | \$1,180,000<br>09/84       | N/A                      | \$ 10,202                    | \$ 7,271<br>int. only                               | 04/87 - 03/88                                                   | Paid to 06/01/87<br>Borrowers defaulted |
| Wendys<br>So. Anchorage                   | \$ 716,638.55<br>90%  | \$1,220,000<br>10/84       | N/A                      | \$ 9,393                     | \$ 6,871<br>int. only                               | 04/87 - 03/88                                                   | Paid to 06/01/87<br>Borrowers defaulted |
| Wendys<br>E. 5th Ave.                     | \$ 653,814.62<br>90%  | \$1,300,000<br>05/82       | N/A                      | \$ 7,788                     | \$ 6,970<br>int. only                               | 04/87 - 03/88                                                   | Paid to 06/01/87<br>Borrowers defaulted |
| Wendys<br>Jewell Lake                     | \$ 409,705.97<br>57%  | \$1,160,000<br>05/82       | N/A                      | \$ 8,222                     | \$ 7,742<br>int. only<br>on AIDEA &<br>FIAK portion | 04/87 - 03/88                                                   | Paid to 06/01/87<br>Borrowers defaulted |
| Office/retail<br>warehouse<br>Eagle River | \$ 711,529.23<br>90%  | \$ 707,800<br>03/87        | \$ 310,000               | \$ 9,386                     | \$ 5,000                                            | 10/86 - 03/88                                                   | Paid to 12/01/87                        |
| Office bldg<br>Anchorage                  | \$ 588,763.16<br>90%  | \$ 841,000<br>04/87        | N/A                      | \$ 6,580                     | \$ 6,580                                            | 04/88 - 10/89<br>Repymnt of amt.<br>capitalized                 | Paid to 10/01/87                        |



| Type of Property<br>Location                   | AIDRA<br>Balance      | Estimated<br>Value<br>Date | Additional<br>Collateral               | Total<br>Original<br>Payment | Total<br>Modified<br>Payment         | Term                                            | Status 10/30                                                             |
|------------------------------------------------|-----------------------|----------------------------|----------------------------------------|------------------------------|--------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------|
| Furniture fixtures<br>& equipment<br>Anchorage | \$ 242,396.07<br>90%  | \$ 25,000                  | N/A                                    | \$ 6,621                     | \$ 2,000                             | 12/87 - 02/88                                   | Paid to 05/01/87<br>Business to close                                    |
| Strip mall<br>Anchorage                        | \$ 710,183.09<br>90%  | \$ 415,000<br>10/87        | N/A                                    | \$ 9,340                     | 100% NOI<br>+ \$2,000<br>min \$6,000 | 05/87 - 04/88                                   | Paid to 08/01/87<br>Borrower defaulted<br>Settlement being<br>negotiated |
| Office/warehouse<br>Anchorage                  | \$ 317,877.43<br>90%  | \$ 400,000<br>03/87        | N/A                                    | \$ 3,700                     | \$ 3,268<br>int. only                | 08/87 - 07/88                                   | Paid to 09/01/87<br>2nd lienholder considering<br>deed-in-lieu           |
| Office bldg.<br>Anchorage                      | \$ 551,180.97<br>90%  | \$1,150,000<br>06/81       | N/A                                    | \$ 7,342                     | \$ 6,680<br>int. only                | 02/87 - 08/88                                   | Paid to 12/01/87                                                         |
| Wendy's<br>Fairbanks                           | \$ 439,134.43<br>90%  | \$ 368,640<br>07/87        | N/A                                    | \$ 6,074                     | \$ 4,689                             | 07/87 - 11/88                                   | Paid to 09/01/87<br>FDIC servicing                                       |
| Office bldg.<br>Anchorage                      | \$2,070,909.47<br>80% | \$1,800,000<br>02/87       | \$ 421,521                             | \$ 24,957.96                 | \$10,000<br>min. pymt                | 11/86 - 12/88                                   | Paid to 08/01/87<br>FDIC servicing                                       |
| 60 unit hotel<br>Kenai                         | \$ 962,728.01<br>90%  | \$1,200,000<br>07/87       | \$ 396,700<br>\$ 59,960<br>D/S Reserve | \$ 11,180.91                 | \$ 6,000<br>\$ 3,500<br>\$ 6,000     | 06/87 - 10/87<br>11/87 - 05/88<br>06/88 - 10/89 | Paid to 12/01/87                                                         |
| Mini storage<br>warehouse<br>Anchorage         | \$2,442,194.69<br>80% | \$2,235,000<br>07/87       | \$ 120,000<br>Cash<br>Collateral       | \$ 32,701.87                 | \$22,410<br>int. only                | 07/87 - 08/88                                   | Paid to 12/01/87                                                         |
| Dental clinic<br>office bldg.<br>Bethel        | \$ 303,374.27<br>90%  | \$ 384,720<br>07/87        | \$ 330,000                             | \$ 4,114.91                  | \$ 2,000                             | 07/87 - 11/88                                   | Paid to 12/01/87                                                         |

| Type of Property<br>Location                            | AIDEA<br>Balance      | Estimated<br>Value<br>Date | Additional<br>Collateral | Total<br>Original<br>Payment | Total<br>Modified<br>Payment                    | Term                           | Status 10/30                           |
|---------------------------------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|-------------------------------------------------|--------------------------------|----------------------------------------|
| 8 unit hotel bldg.<br>leasehold<br>Chena Hot Springs    | \$ 139,872.34<br>90%  | \$ 242,000<br>07/81        | N/A                      | \$ 1,762                     | \$ 881<br>1/2 pymnt                             | 12/87 - 11/89                  | Waiting for documents<br>from servicer |
| 2-8 unit hotel bldgs.<br>leasehold<br>Chena Hot Springs | \$ 358,814.89<br>90%  | \$ 590,000<br>01/83        | N/A                      | \$ 4,226                     | \$ 2,113<br>1/2 pymnt                           | 12/87 - 11/89                  | Waiting for documents<br>from servicer |
| Tank manufacturing<br>plant<br>Fairbanks                | \$1,095,171.06<br>81% | \$1,598,000<br>06/87       | \$ 400,000               | \$ 11,386                    | \$ 5,694                                        | 1 year                         | Waiting for documents<br>from servicer |
| 6 plex apt. bldg.<br>Anchorage                          | \$ 223,022.28<br>89%  | \$ 400,000<br>03/84        | N/A                      | \$ 2,254                     | \$ 2,016<br>int only                            | 10/87 - 9/88                   | Current                                |
| Office bldg.<br>Anchorage                               | \$ 719,867.56<br>86%  | \$1,180,000<br>02/82       | N/A                      | \$ 9,165                     | \$ 8,086<br>int only<br>reg. pymnt<br>+ \$1,000 | 01/87 - 12/88<br>01/89 - 12/91 | Current                                |

Total #32  
Total \$30,796,960.77

**WORK OUT REPORT 12/31/87  
APPROPRIATED & RED DOG LOANS**

| Type of Property<br>Location                | AIDEA<br>Balance | Estimated<br>Value<br>Date         | Additional<br>Collateral         | Total<br>Original<br>Payment | Total<br>Modified<br>Payment | Term                                            | Status 10/30                                                                         |
|---------------------------------------------|------------------|------------------------------------|----------------------------------|------------------------------|------------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------|
| A/R Inventory<br>Rent A Wreck<br>Anchorage  | \$ 38,004.97     | \$ 50,000<br>Personal<br>guarantee | 3rd D/T<br>on Anch.<br>residence | \$ 8,312                     | \$ 500                       | 03/87 - 02/88                                   | Current                                                                              |
| Reed Bldg.<br>Marx Bros. Bldg.<br>Anchorage | \$ 341,935.94    | \$ 680,000<br>1980                 | N/A                              | \$ 5,368                     | \$3,000<br>int. only         | 09/86 - 02/88                                   | Work out broken<br>Foreclosure pending                                               |
| 2 metal warehouses<br>Bethel                | \$ 152,651.47    | \$ 475,000<br>1986                 | N/A                              | \$ 3,200                     | \$2,200                      | 08/86 - 01/95                                   | Work out broken<br>Foreclosure pending                                               |
| Fishing Vessel<br>Cordova                   | \$ 39,176.92     | \$ 125,000<br>1986                 | N/A                              | \$16,726<br>Annual           | \$ 7,000<br>Annual           | 10/86 - 10/87                                   | Completed as agreed                                                                  |
| Retail/warehouse<br>Wasilla                 | \$ 815,465.25    | \$ 630,000<br>1987                 | N/A                              | \$ 6,728                     | \$ 1,000                     | 06/87 - 10/87                                   | Completed as agreed<br>Deed-in-lieu accepted                                         |
| Lumber yard<br>Fairbanks                    | \$ 359,827.10    | \$ 773,000<br>1987                 | N/A                              | \$ 5 981                     | \$ 3,468                     | 07/87 - 06/88                                   | Waiting for signatures<br>on modification                                            |
| 2 vacant lots<br>Anchorage                  | \$ 209,234.65    | \$ 564,000<br>1986                 | N/A                              | \$ 6,310                     | \$ 3,000                     | 03/87 - 02/89                                   | Paid to 09/01/87. AIDEA has<br>not received payments since<br>closure of ANB by FDIC |
| Fishing vessel &<br>tri-plex<br>Ketchikan   | \$ 31,424.27     | \$ 154,000<br>1985                 | N/A                              | \$ 7,952<br>Annual           | \$ 492<br>Month              | 12/86 - 05/87<br>Then back to<br>annual payment | Pd '87 annual payment<br>09/29/87. Lacks 1 monthly<br>payment of being current       |
| Retail/warehouse<br>Wasilla                 | \$ 153,541.33    | \$ 141,380<br>1987                 | N/A                              | \$ 2,468                     | \$ 3,702<br>1 1/2 pymts      | 03/87 - 11/87                                   | Work out broken<br>Possible deed-in-lieu                                             |



| Type of Property<br>Location                                              | AIDEA<br>Balance | Estimated<br>Value<br>Date | Additional<br>Collateral | Total<br>Original<br>Payment | Total<br>Modified<br>Payment | Term          | Status 10/30                                                                          |
|---------------------------------------------------------------------------|------------------|----------------------------|--------------------------|------------------------------|------------------------------|---------------|---------------------------------------------------------------------------------------|
| Vacant lot<br>Anchorage                                                   | \$ 42,150.55     | \$ 500,000<br>1987         | N/A                      | \$ 4,476                     | \$ 689<br>int. only          | 10/87 - 10/88 | Paid to 12/01/87                                                                      |
| Office/retail<br>Homer                                                    | \$ 109,862.47    | \$ 375,000<br>1984         | N/A                      | \$ 1,721                     | \$ 1,000                     | 03/87 - 03/88 | Paid to 12/01/87                                                                      |
| Hotel<br>Anchorage                                                        | \$ 304,172.64    | \$1,200,000<br>1987        | N/A                      | \$ 6,368                     | \$ 2,622<br>int. only        | 01/87 - 07/88 | Original work out broken &<br>negotiated new plan.                                    |
| Hotel<br>Anchorage                                                        | \$ 758,953.64    | \$1,950,000<br>1987        | N/A                      | \$10,910                     | \$ 6,367<br>int. only        | 01/87 - 07/88 | Original work out broken &<br>negotiated new plan.                                    |
| 3 parcels including<br>lodge, restaurant,<br>laundry & store<br>Glenallen | \$ 305,190.52    | \$ 1,350,000<br>1980       | N/A                      | \$ 4,530                     | \$ 2,755                     | 10/86 - 05/88 | Paid to 12/01/87                                                                      |
| Shop/warehouse<br>Anchorage                                               | \$ 137,695.56    | \$ 151,235<br>1987         | N/A                      | \$ 2,201                     | \$ 1,349<br>int. only        | 02/87 - 06/88 | Original work out broken.<br>Borrower paid current on<br>eve of foreclosure.          |
| Office condo<br>Anchorage                                                 | \$ 183,984.01    | \$ 104,957<br>1987         | N/A                      | \$ 2,121                     | \$ 1,626<br>int. only        | 07/87 - 06/88 | Paid to 12/01/87                                                                      |
| Shop Bldg.<br>Wasilla                                                     | \$ 47,797.27     | \$ 99,600<br>1987          | N/A                      | \$ 2,154                     | \$ 500<br>int. only          | 05/87 - 09/88 | Paid to 09/01/87. AIDEA has<br>not received payments since<br>closure of ANB by FDIC. |
| AK State Fair<br>Grounds<br>Palmer                                        | \$ 310,223.63    | \$ 1,163,000<br>1976       | N/A                      | \$33,311                     | \$24,000<br>semi-annual      | 05/87 - 05/88 | Current                                                                               |

| Type of Property<br>Location                                      | AIDEA<br>Balance                               | Estimated<br>Value<br>Date                          | Additional<br>Collateral | Total<br>Original<br>Payment | Total<br>Modified<br>Payment | Term                       | Status 10/30                           |
|-------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------|--------------------------|------------------------------|------------------------------|----------------------------|----------------------------------------|
| 264 acres<br>Wasilla                                              | \$ 166,675.16                                  | \$ 710,000<br>1980                                  | N/A                      | \$32,163<br>semi-annual      | \$ 7,917<br>int. only        | 06/87 - 12/88              | Paid to 06/01/87                       |
| Roller Rink<br>Anchorage                                          | \$ 393,548.02<br>(RD)<br>\$ 276,625.59<br>(BS) | \$ 764,000<br>1987                                  | \$ 140,450               | \$10,811                     | \$ 6,532<br>int. only        | 10/87 - 09/88              | Paid to 12/01/87                       |
| residence and<br>lot in Unalaska                                  | \$ 218,700.00                                  | \$ 130,415<br>10/87                                 |                          | \$113,620<br>Annual          | \$1,955<br>Monthly           | 12/87-11/92                | Paid to 12/01/87                       |
| 47' vessel with<br>refrigeration                                  | \$ 48,845.43                                   | \$ 160,000<br>1984                                  |                          | \$ 18,652<br>Annual          | \$38,500<br>Annual           | 03/87 - 11/87              | Workout broken.                        |
| 10 lots in Fairbanks<br>2nd on above and<br>2nd on additional lot | \$ 245,247.58<br>\$ 177,531.10                 | \$ 500,000(10 lots)<br>1987<br>\$ 67,500 (add. lot) |                          | \$ 5,580<br>\$ 9,782         | int only<br>int only         | 8/87 - 7/88<br>8/87 - 7/88 | Waiting for documents<br>from servicer |
| 3 vacant lots<br>in Wasilla                                       | \$ 28,304.67                                   | \$ 310,000<br>1986                                  |                          | \$ 1,768                     | \$ 1,200                     | 1/88 - 4/95                | Paid to 12/01/87                       |
| 16-plex on<br>leasehold<br>Chena Hot Springs                      | \$ 229,141.87                                  | \$ 576,783<br>1978                                  |                          | \$ 3,265                     | \$ 1,632                     | 12/87 -11/89               | Waiting for documents<br>from servicer |





## OREO Foreclosed Property

| Legal                                                                                                                                                             | Type of Property                           | Foreclosure Date              | Appraised Value                            | Amt in OREO Account                                       | Listing                                                                                                                                      | Action                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------|--------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| 2 Parcels:<br>J. McCall, Inc. Yard - Mile 7<br>Richardson Hwy.<br>Lakloey Hill Residence                                                                          | Largely vacant<br>property in<br>Fairbanks | 7/30/85                       | JMI Yard<br>\$585,000 7/85                 | \$338,166.64<br>(\$715,645.73<br>charged down<br>in 1984) | NBA is managing -<br>Lost Supreme Court<br>hearing regarding<br>drag net clause on<br>additional collateral<br>Lost LPCC yard as<br>a result | Reside<br>sold<br>10/06/<br>for \$10<br>total        |
| Units 1-4, 7, 8A, 8B, 10,<br>Building A of River Mall on<br>L2, Alexander S/D - Fairbanks                                                                         | Mall                                       | 5/27/86                       | \$1,976,400.<br>1984                       | \$897,742.61<br>(\$167,476.80) sale<br>\$730,265.81       | FNBF is marketing<br>at \$160/s.f.<br>thru Coldwell<br>Bankers                                                                               | 3 unit<br>sold<br>3,700<br>be lea<br>to Fre<br>Meyer |
| E 1/3 of S 1/2 of L1, B4,<br>Mtn. View S/D - Anchorage<br>3243 Commercial Dr.                                                                                     | Retail Whse<br>4200 sq.ft.                 | 6/26/86                       | \$275,500.<br>1986                         | \$165,743.08                                              | Listed w/ Jack White<br>for \$230,000 since<br>9/86. 6/1/87 lowered<br>price to \$198,000.                                                   | 1 offer<br>8/87. 1<br>wldn't<br>counte               |
| Tract A, Spruce Acres S/D<br>+ 300' x 300' in the SW 1/4<br>SE 1/4, S34, T45, R15W, SM,<br>Homer Recording District aka<br>Keystone Center at Anchor<br>Point, AK | Mall                                       | 7/29/86                       | \$800,000<br>3/86                          | \$576,195.87                                              | FSLIC deeded property<br>100% to AIDA.<br>Karabelnikoff & Assoc.<br>acting as prop. managers.                                                | 2 tena                                               |
| Leasehold int. in L3 & 4,<br>3900, Deadhorse Airport                                                                                                              | Hangar &<br>Equipment                      | 8/21/86<br>(Deed-<br>in-lieu) | \$1.4M 1981<br>\$726,650<br>Est Value 1986 | \$661,343.91                                              | FNBA to take over<br>marketing.                                                                                                              |                                                      |
| Leasehold int. in L6, B200,<br>Iliamna Airport, Iliamna                                                                                                           | Hangar                                     | 10/9/86                       | \$450,000<br>1983                          | \$111,112.50<br>(\$185,110.73<br>written off<br>06/30/87) | 5/87 - Listed w/<br>Remote &<br>Recreational<br>Prop. for \$150,000.                                                                         |                                                      |
| LA, Forest Dr. S/D -<br>Anchorage - 1,872 sft.<br>228 Laurel St.                                                                                                  | SFR, zoned R-0                             | 1/5/87                        | \$125,500<br>(Assessed Value)              | \$117,329.02                                              | ERA/Bates has listing<br>listed for \$175,000<br>5/11/87 lowered price<br>to \$149,500                                                       |                                                      |

| Legal                                                                            | Type of Property                            | Foreclosure Date        | Appraised Value                           | Amt in OREO Account                                     | Listing                                                                   | Activity                                    |
|----------------------------------------------------------------------------------|---------------------------------------------|-------------------------|-------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------|
| L9, B5, Dimond Ind. Center #1, Anchorage<br>7900 & 7910 King St.                 | Retail Warehouse<br>5,172 sf 2 bay          | 12/16/86                | \$377,300<br>(Assessed 1986)              | \$274,239.92                                            | FNBA marketing for \$310,000<br>1/2 rented to Fireguard for \$1,000/month | Offer rumored at \$260,000 w. 20% down.     |
| L2, B34, South Mineral Creek S/D & L3A, 4A & 6A, B34, Mineral Creek S/D - Valdez | Office/Retail                               | 1/13/87                 | \$1,083,300<br>(1987 Est.)                | \$967,411.20                                            | AMB soliciting tenants                                                    | A number of units leased.                   |
| Tract 3A, Independence Park S/D, Anchorage<br>2121 Abbott Rd.                    | Office/Warehouse<br>12,000 sf NRA - 2 story | 3/2/87<br>Deed-in-lieu  | \$1,000,000<br>(1986 Est.)                | \$728,000.00<br>(\$325,150.39 written off 06/30/87)     | Property managed by Equity Market Group                                   | 2 tenants & upstairs to be leased in 10/87. |
| L33, S20, T4N, R2W, Copper River Meridian, Chitna R. D. Glenallen                | Garage                                      | 3/12/87<br>Deed-in-lieu | \$86,000<br>(1986 Est.)                   | \$86,000                                                |                                                                           | Offer received 12/3/87 for \$65,000         |
| Leasehold int in L1, B41-B, East Add to Townsite of Anch. 1415 Spar              | Warehouse/office                            | 4/7/87                  | \$290,000 - \$300,000<br>(1987 Est.)      | \$232,903.70                                            | Listed w/ Jack White for \$350,000 nonexclusive                           | 10% down                                    |
| Unit A-2 of 101 9th Ave. Condo being L7A of B106, Anchorage Townsite             | 860 sf office/condo                         | 4/30/87                 | \$117,500<br>(1981)<br>\$55,000<br>(1987) | \$47,300.00<br>(\$19,837.69 written off 06/30/87)       | ASB to market for 30 - 60 days.<br>Listing Price \$65,000                 | Poss. 1 yr pur. optn wch would cvr costs.   |
| L15A, & 17A, B6, City View S/D #3, Anchorage<br>2600 E. 16th Ave.                | 6,988 sf grocery store on E. 16th Ave.      | 6/3/87                  | \$250,000<br>(1987 est.)                  | \$220,000.00<br>(\$35,418.25 written off 06/30/87)      | APB to market \$300,000 - \$325,000                                       |                                             |
| L1A, B1, Dimond D Devel. S/D, Anchorage R. D.<br>300 E. Dimond                   | 27,620 sf shpg mall on Dimond               |                         | \$3,000,000                               | \$2,376,179<br>(\$393,758 charged to Loan Loss 6/30/87) | UBA/AIDEA are acquiring tenants                                           | Rented space to Gary King                   |
| L34, B1, Shaw Tri-Lakes #2, Palmer R. D.                                         | Vacant lot in Wasilla                       | 5/31/87<br>Deed-in-lieu | \$35,000                                  |                                                         |                                                                           |                                             |
| 2/3 assignment of escrow                                                         |                                             |                         | \$20,000                                  |                                                         |                                                                           |                                             |

| Legal                                                       | Type of Property                                       | Foreclosure Date        | Appraised Value              | Amt in OREO Account                                            | Listing                                 | Activity |
|-------------------------------------------------------------|--------------------------------------------------------|-------------------------|------------------------------|----------------------------------------------------------------|-----------------------------------------|----------|
| L56, B2, Interair S/D Anchorage<br>5001 Eagle St.           | 10,550 sf office/shop                                  | 6/29/87                 | \$605,000                    | \$544,500<br>(\$40,353.94 charged to Loan Loss 6/30/87)        |                                         |          |
| Unit A-F, L9C, Interair S/D Anchorage<br>4841 Fairbanks St. | 7,500 sf 6 bay warehouse/off. in So. Anchorage         | 6/30/87                 | \$319,800                    | \$207,795.01                                                   |                                         |          |
| Unit 9, Jordan Creek Office Condo, Juneau                   | 1,193 sf office/condo in Juneau                        | 6/17/87<br>Deed-in-lieu | \$90,000                     | \$73,800<br>(\$10,963.42 charged to Loan Loss 6/30/87)         |                                         |          |
| L7, B3, Westgate Park S/D Anchorage<br>6235 Nielsen Way     | 1,225 sf off. & 12,169 sf. warehouse                   | 7/23/87                 | \$469,000<br>(Assessed 1986) | \$236,217.94                                                   | Chris Anderson @ KBA handling           |          |
| L3E, B2, "C" St. Industrial S/D Anchorage<br>6151 "B" St.   | 880 sf off & 6,320 sf wrhse w/2,400 sf mezzanine stge. | 8/21/87                 | \$375,000                    | \$317,456.37                                                   |                                         |          |
| USS 2729 Sitka                                              | 16 unit, 20,000 sf business park                       | 8/17/87                 | \$1,150,000<br>(1987 est.)   | \$837,200.00<br>(\$159,817.51 charged to Loan Loss 9/30/87)    |                                         |          |
| L1 & 2, Irvin S/D Homer<br>NHN Katchemak Dr.                | 11,792 sq.ft. office                                   | 9/14/87                 | \$227,000<br>(1987 est.)     | \$202,030.00<br>(\$139,924.82 charged to Loan Loss 10/23/87)   |                                         |          |
| L4 USS 3637, Central, AK                                    | 4,400 log lodge on 3.8 acres                           | 9/30/87                 | \$55,000<br>(1987 est)       | \$55,000                                                       | Listed with Remote & Recreational Prpty |          |
| L11A,B39,Orig Twnst of Anch.<br>444 H Street                | 2 story, 4856sf office building                        | 11/17/87                | \$530,000<br>(1987 est)      | \$477,000<br>(\$196,791.90 charged to loan loss 12/30/87)      |                                         |          |
| L1&2,B"B", Shanley Homestead S/D, Fairbanks                 | 2 story grocery store/apartment building               | 10/16/87                | \$278,000<br>(1987 est)      | \$250,200<br>(\$2,940.26 charged to loan loss reserve 12/8/87) |                                         |          |



| Legal                                           | Type of Property                                 | Foreclosure Date        | Appraised Value      | Amt in OREO Account | Listing                                      | Activity |
|-------------------------------------------------|--------------------------------------------------|-------------------------|----------------------|---------------------|----------------------------------------------|----------|
| L12A,B14A, East Add Anchorage Twnst             | 13,500 s.f. retail/wrhs at East 6th & Juneau     | 10/30/87                | \$576,000 (1987 est) | \$432,000           | (132,368.20 to loan loss reserve 12/08/87)   |          |
| Tract "B", Bowers S/D, Kachamak View Add. Homer | 8686 s.f. shopping mall/office building in Homer | 11/13/87                | \$506,000 (1987 est) | \$455,400           | (\$71,271.63 to loan loss reserve 12/09/87)  |          |
| Lot 49-A,B2,Wasilla Airport Heights S/D Wasilla | 24,096 s.f. retail/wrhs bldg in Wasilla          | 12/24/87 (Deed-in-lieu) | \$630,000 (1987 est) | \$630,000           | (\$145,465.25 to loan loss reserve 12/31/87) |          |

Total #28

Total in OREO  
\$12,350,789.97Total to Loan Loss Reserve  
\$ 2,574,817.72

**FDIC**

Federal Deposit Insurance Corporation

Memorandum to: Laurence D. Schannault  
Deputy Regional Director (DOJ)  
San Francisco Regional Office

From: James K. Cook *James K. Cook*  
Bank Liquidation Specialist

Date: March 4, 1988

Subject: 2766 - First Interstate Bank of Alaska (FIB)  
Anchorage, AK - In Liquidation

5915 - Alaska National Bank of the North (ANBN)  
Anchorage, AK - In Receivership  
Types of Loans/Businesses and Numbers of Employees

As you requested, the following is a breakdown of the assets of First Interstate Bank of Alaska and Alaska National Bank of the North. The assets are categorized by type of loans, number of employees employed by those businesses that are obligated to the FDIC and the number of loans and book values by type of business. The source of this information is the call report data of each bank and the analysis of each portfolio by each Account Officer, as of March 1, 1988.

| <u>Commercial Loans</u> |          | <u>ANBN</u>      |          | <u>FIB</u> |  |
|-------------------------|----------|------------------|----------|------------|--|
| <u>Secured by:</u>      | <u>#</u> | <u>BV</u>        | <u>#</u> | <u>BV</u>  |  |
| Commercial RE           | 175      | 21.0mm           | 178      | 35.4mm     |  |
| A.R. & Contract Rights  | 97       | 10.5mm           | 38       | 8.3mm      |  |
| Inventory               | 45       | 2.0mm            | 26       | 6.9mm      |  |
| Equipment               | 184      | 13.0mm           | 176      | 17.0mm     |  |
| Stocks                  | 4        | 3.0mm            | 0        | .2mm       |  |
| Miscellaneous           | 3        | 1.2mm            | 65       | 4.3mm      |  |
| Unsecured               | 94       | 3.5mm            | 61       | 3.4mm      |  |
|                         |          |                  |          |            |  |
| Totals                  | 602      | 74.2mm<br>59.2mm | 549      | 76.3mm     |  |

Laurence D. Schannault  
 March 4, 1988  
 Page 2

Real Estate Mortgage Loans

|                                         | <u>ANDN</u> |           | <u>FIB</u> |           |
|-----------------------------------------|-------------|-----------|------------|-----------|
| <u>A. Real Estate Construction Type</u> | <u>#</u>    | <u>BV</u> | <u>#</u>   | <u>BV</u> |
| Land Acquisition (Comm)                 | 3           | 2.7mm     | 4          | 838,257   |
| Land Acquisition (Res.)                 | 4           | 341,000   | --         | --        |
| Land Development (Res.)                 | 7           | 3.2mm     | 11         | 4.3mm     |
| Commercial-Apartments                   | 7           | 1.2mm     | 2          | 4.4mm     |
| Commercial-Retail Offices               | 1           | 500,000   | --         | --        |
| Commercial-Offices                      | 1           | 2.0mm     | 1          | 3.7mm     |
| Commercial-Warehouse                    | 3           | 3.4mm     | 3          | 3.8mm     |
| Single Family Residences                | 36          | 3.2mm     | 24         | 6.2mm     |
| Other                                   | 2           | 1.2mm     | 0          | 5.1mm     |
| Totals                                  | 64          | 18.4mm    | 54         | 28.3mm    |

B. Covered Transaction-Type

|                |    |        |     |   |
|----------------|----|--------|-----|---|
| Candem         | 7  | 400m   | N/A |   |
| Zero Lot Lines | 7  | 600m   |     |   |
| SFR            | 7  | 700m   |     |   |
| Vacant         | 3  | 160m   |     |   |
| Commercial     | 1  | 375m   |     |   |
| Mobile Homes   | 1  | 68m    |     |   |
| Hotel/Motel    | 1  | 680m   |     |   |
| Other          | 1  | 210m   |     |   |
| Totals         | 28 | 3,193m | 0   | 0 |

\* FTR did not segregate covered transactions.



Lawrence D. Schannault  
March 4, 1988  
Page 3

|                               | <u>ANBN</u> |               | <u>FIB</u> |                |
|-------------------------------|-------------|---------------|------------|----------------|
| <u>C. Amortized/Term-Type</u> | <u>#</u>    | <u>BV</u>     | <u>#</u>   | <u>BV</u>      |
| SFR                           | 60          | 5.0mm         | 167        | 13.3mm         |
| Conventional 2-4 Units        | 10          | 1.2mm         | 30         | 5.1mm          |
| FHA                           | 3           | 100,000       | --         |                |
| VA                            | 2           | 160,000       | --         | --             |
| Commercial                    | 20          | 2.9mm         | 148        | 34.4mm         |
| Vacant Lots                   | 2           | 50,000        | 9          | 4.8mm          |
| Other                         | 13          | 500,000       | 12         | 5.6mm          |
| Totals                        | <u>110</u>  | <u>84.8mm</u> | <u>266</u> | <u>68.2mm</u>  |
| GRAND TOTALS                  | <u>804</u>  | <u>84.8mm</u> | <u>969</u> | <u>167.8mm</u> |

The breakdown above includes the original inventory retained by the FIC and all putbacks in date, from both banks. It is probable that the National Bank of Alaska will put back approximately 40 more loans, with a BV of about \$5.0mm, under the 75% putback provision for FIB. The putback process for ANBN is complete.

There is a total of about 120 installment loans, with an accumulative BV of approximately \$200,000.00, from both banks. These were not included in the schedules above. The schedules above also include charged off loans, owned real estate, bank properties and other fixed assets.

Attached to this memorandum is a listing of one properties for Security National Bank as well as ANBN and FIB.

Should you have any questions, please call.

JC:cn

cc: Thomas S. Ruth, Jr.  
Reid Judd  
Mike MacDermott  
Jack Smith  
Section Chiefs  
File

**REAL ESTATE PROPERTIES OWNED**  
**AS OF: March 3, 1988**

| <u>TYPE</u>                            | <u>BANK NO: 2608</u><br><u>BANK: SNB</u> | <u>BANK NO: 5915</u><br><u>BANK: ANBN</u> | <u>BANK NO: 2766</u><br><u>BANK: FIAK</u> | <u>TOTAL</u>           |
|----------------------------------------|------------------------------------------|-------------------------------------------|-------------------------------------------|------------------------|
| <u>SFR</u><br>(B.V.)                   | 10<br>(1,165,132.35)                     | 18<br>(1,315,087.06)                      | 24<br>(1,649,920.07)                      | 52<br>(4,130,139.48)   |
| <u>COMMERCIAL OFFICE</u><br>(B.V.)     | 2<br>(427,000.00)                        | 8<br>(830,351.51)                         | 13<br>(1,827,890.50)                      | 23<br>(3,085,242.01)   |
| <u>COMMERCIAL OTHER</u><br>(B.V.)      | 1<br>(63,636.14)                         | 3<br>(291,508.41)                         | 13<br>(4,064,632.95)                      | 17<br>(4,419,777.50)   |
| <u>DUPLEX</u><br>(B.V.)                | -0-                                      | 1<br>(64,800.00)                          | 1<br>(704,444.06)                         | 2<br>(769,244.06)      |
| <u>4-PLEX</u><br>(B.V.)                | 1<br>(234,351.50)                        | 6<br>(723,632.65)                         | 10<br>(1,181,821.94)                      | 17<br>(2,139,806.09)   |
| <u>6-PLEX</u><br>(B.V.)                | 2<br>(493,969.22)                        | -0-                                       | 2<br>(9,165.75)                           | 4<br>(503,134.97)      |
| <u>APTS MULTI-FAMILY</u><br>(B.V.)     | -0-                                      | -0-                                       | 4<br>(3,476,099.19)                       | 4<br>(3,476,099.19)    |
| <u>CONDOS</u><br>(B.V.)                | 2<br>(145,816.99)                        | 20<br>(843,272.62)                        | 120<br>(3,781,043.59)                     | 142<br>(4,770,133.20)  |
| <u>1-4 SFR LOTS</u><br>(B.V.)          | 33<br>(1,359,016.32)                     | 61<br>(1,502,188.33)                      | 247<br>(3,178,157.89)                     | 341<br>(6,039,362.54)  |
| <u>COMMERCIAL LOTS</u><br>(B.V.)       | 5<br>(455,344.00)                        | 1<br>(103,153.57)                         | 3<br>(2,300,881.65)                       | 9<br>(2,859,379.22)    |
| <u>TRAILORS MOBILE HOMES</u><br>(B.V.) | -0-                                      | 1<br>(35,700.00)                          | 1<br>(36,000.36)                          | 2<br>(71,700.36)       |
| <u>TOTAL:</u><br>(B.V.)                | 56<br>(4,344,266.52)                     | 119<br>(5,709,694.15)                     | 436<br>(22,210,057.95)                    | 611<br>(32,264,018.62) |

REAL ESTATE PROPERTIES OWNED  
PAGE 2

SUBSIDIARY ACCOUNT

BANK NUMBER: 5915  
BANK: ALASKA NATIONAL BANK

BANK NUMBER: 2766  
BANK: FIRST INTERSTATE BANK

TOTAL

COMMERCIAL 2  
(B.V.) (400,000.00)

10  
(22,099,494.62)

12  
(22,499,494.62)

The Subsidiary accounts consist of owned bank buildings.



# MORTGAGE LOANS

## ANBN

## FIB

| <u>Types of Business</u> | <u># of Assets</u> | <u>Book Value</u> | <u>Employees (Estimated)*</u> |               |             | <u># of Assets</u> | <u>Book Value</u> | <u>Employees (Estimated)*</u> |               |             |
|--------------------------|--------------------|-------------------|-------------------------------|---------------|-------------|--------------------|-------------------|-------------------------------|---------------|-------------|
|                          |                    |                   | <u>1-24</u>                   | <u>25-100</u> | <u>100+</u> |                    |                   | <u>1-24</u>                   | <u>25-100</u> | <u>100+</u> |
| Agriculture              |                    |                   |                               |               |             |                    |                   |                               |               |             |
| Real Estate Related      | 8                  | 5,132M            |                               | 48            |             | 76                 | 18,903M           |                               |               | 615         |
| Tourism                  | 2                  | 829M              | 23                            |               |             | 17                 | 6,687M            |                               |               | 462         |
| Transportation           |                    |                   |                               |               |             | 5                  | 1,410M            |                               | 41            | 120         |
| Fishing                  | 2                  | 219M              | 8                             |               |             | 3                  | 2,723M            |                               |               | 112         |
| Mining                   |                    |                   |                               |               |             |                    |                   |                               |               |             |
| Construction             | 7                  | 1,298M            | 44                            |               |             | 3                  | 3,739M            | 7                             |               |             |
| Timber                   |                    |                   |                               |               |             |                    |                   |                               |               |             |
| Oil Related              | 1                  | 1,299M            | 4                             |               |             | 2                  | 1,317M            |                               | 35            |             |
| Communication            |                    |                   |                               |               |             |                    |                   |                               |               |             |
| Retail/Services          |                    |                   |                               |               |             |                    |                   |                               |               |             |
| Not Designated           | 182                | 21,673M           | (Not Available)               |               |             | 260                | 16,037M           | (Not Available)               |               |             |
| Totals                   | 202                | 30,450M           | 79*                           | 48*           |             | 366                | 50,816M           | 7*                            | 76*           | 1309*       |

\* Represents total number of employees for each type of business.

COMMERCIAL LOANS

AVEN

FIB

| <u>Types of Business</u> | <u># of Assets</u> | <u>Book Value</u> | <u>Employees (Estimated)*</u> |               |             |
|--------------------------|--------------------|-------------------|-------------------------------|---------------|-------------|
|                          |                    |                   | <u>1-24</u>                   | <u>25-100</u> | <u>100+</u> |
| Agriculture              | 3                  | 205M              | 15                            |               |             |
| Real Estate Related      | 12                 | 1,084M            | 21                            |               |             |
| Tourism                  | 9                  | 185M              | 18                            |               |             |
| Transportation           | 24                 | 3,794M            | 205                           | 242           |             |
| Fishing                  | —                  | —                 | —                             |               |             |
| Mining                   | 15                 | 1,001M            | 18                            |               |             |
| Construction             | 69                 | 3,757M            | 282                           | 90            |             |
| Timber                   | 9                  | 271M              | 60                            |               |             |
| Oil Related              | —                  | —                 | —                             |               |             |
| Communication            | —                  | —                 | —                             |               |             |
| Retail/Services          | 144                | 17,886M           | 450                           | 151           | 223         |
| Not Designated           | 317                | 26,017M           | (Not Available)               |               |             |
| Totals                   | 602                | 54,200M           | 1,069*                        | 483*          | 223*        |

| <u># of Assets</u> | <u>Book Value</u> | <u>Employees (Estimated)*</u> |               |             |
|--------------------|-------------------|-------------------------------|---------------|-------------|
|                    |                   | <u>1-24</u>                   | <u>25-100</u> | <u>100+</u> |
| —                  | —                 | —                             | —             | —           |
| 59                 | 7,672M            | 244                           |               |             |
| 16                 | 8,869M            | 39                            | 185           |             |
| 26                 | 1,508M            | 79                            |               |             |
| 14                 | 1,060M            | 56                            |               | 125         |
| 1                  | 811M              | 8                             |               |             |
| 61                 | 3,577M            | 241                           | 151           |             |
| 1                  | 28M               | 5                             |               |             |
| 9                  | 3,641M            | 18                            | 39            | 219         |
| 4                  | 639M              | 20                            | 45            |             |
| 179                | 30,020M           | 543                           | 516           | 491         |
| 233                | 46,690M           | (Not Available)               |               |             |
| 603                | 104,515M          | 1,253*                        | 936*          | 835*        |

\* Represents total number of employees for each type of business.

MEMORANDUM

TO: Senate Joint Economic Recovery Committee members  
FROM: Senator Jones  
RE: FDIC liquidation policy proposal

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Attached is AIDA's response to Mr. Lowe's proposal from our last meeting.



PROPOSAL TO ECONOMIC RECOVERY COMMITTEE

MARCH 3, 1988

-----

FDIC sells troubled loans to AIDA for 25¢ on the dollar - no recourse to FDIC. Fund assets until resold up to maximum of 12 months.

AIDA to sell to banks at 30¢ on dollar. AIDA to pay carrying costs, taxes repairs etc but not collection costs.

AIDA to buy back uncollectable loans up to 5 years. Could resell them at any price to anyone - no recourse.

Banks be allowed to buy loans up to a given per cent of capital if a branch in area of loan - on first go around. After that any bank could purchase.

If bank repackages and sells a loan that was purchased from AIDA, AIDA would receive a percentage of any profit generated from the sale.

AIDA or Teachers Retirement could keep or sell as they wished on any terms loans in which they had participated.

AIDA could pool consumer loans under \$25,000 & sell them in packages or could issue bonds that would be retired as loans pay off.

Banks could carry loans off balance sheet. They would not be subject to criticism from regulatory authorities.

This plan could be implemented using a TASK FORCE of bank representatives, FIDC and AIDA officials. The services of a consulting firm and legal counsel (such as SEAFIRST can provide) could bring the program into existence.



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

March 7, 1988

Mr. Jim Lottsfeldt  
Office of Senator Lloyd Jones  
Alaska State Legislature  
P.O. Box V  
Juneau, Alaska 99811

SUBJECT: Proposed Liquidation of FDIC Assets

Dear Mr. Lottsfeldt:

Thank you for forwarding the outline of the FDIC liquidation plan to me. My understanding is that you would like the Authority's comments on such a proposal before the scheduled 5:00 pm meeting on Monday, March 7, 1988.

My understanding of the proposal would have the Authority purchase the assets currently held by the FDIC in the amount of approximately \$200.0 million for .25¢ on the dollar or for about \$50.0 million. The Authority would then sell to Alaskan banks these same assets for .30¢ on the dollar or about \$60.0 million. It also appears the banks will have recourse to the Authority to put any loan back to the Authority and be paid for it for a period of five years. It also appears the Authority will pay the carrying costs, i.e. taxes, insurance, repairs, etc. even while the banks "own" the loan.

I am unsure what such a program would accomplish. The banks should endorse such a program in that it appears they receive a five year risk free option to sell the property for greater than .30¢ on the dollar and if it does not work out, the Authority will repurchase the loan from them.

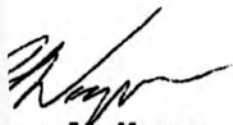
r. Jim Lottsfeldt  
arch 7, 1988  
ge Two

e proposal seems a trifle bizarre in that there has been much  
scussion on "FDIC Dumping" yet here we are dumping first to the  
thority for .25¢ on the dollar, then the banks have the option of  
mping to someone else. While hopefully not sounding to negative, this  
pears to be an exercise in activity that most likely accomplishes  
thing. The end result is the banks would sell the property most likely  
the same people, firms and groups, etc. that the FDIC will.

: "carrot", I guess, for having the Authority assume the risk on the  
ns (the banks have recourse to put them back to the Authority) is the  
ferential between what they are purchased for, (\$50.0 million) and  
d to the banks for, (\$60.0 million).

t is overlooked is that this portfolio has already been picked over  
e by National Bank of Alaska and some of these loans may be worth 80%  
90% of their par amount while I am sure many are worthless. I  
ition how the sale of such marginal properties will be the negative  
e discussed when much of the testimony has illustrated the flight to  
ity in commercial space.

ectfully,



ram L. Wagnon  
itive Director





Official Business

# Alaska State Legislature

## House

Pouch V  
State Capitol  
Juneau, Alaska 99811

February 5, 1988

Mr. Lamar Kelly  
FDIC  
25 Ecker Street, Suite 1900  
San Francisco, CA 94105

Dear Mr. Kelly:

This letter confirms our conversation of Thursday, February 3, 1988. We recognize the FDIC's desire to avoid the possible adverse effects of a sale of FDIC-owned property, and we share your concern. Actions by the FDIC and its successors in interest, if not carefully planned and monitored, may have profoundly adverse effects on other banks, on the Anchorage economy and, as a result, on the Alaskan economy statewide.

We look forward to meeting with Messrs. Chenault and Hone next Monday and Tuesday, when the Joint Committee on Economic Recovery has scheduled a hearing at which they will testify.

During our preparatory discussions and that hearing we expect to learn the details of the problem and explore all possible solutions. We would like the legislature and the FDIC to work together and find an equitable solution as speedily as possible. Given the time needed to develop, draft and pass the necessary legislation, we believe this process can, if begun next week, if necessary be completed by no later than the date the legislature adjourns, May 9, 1988.

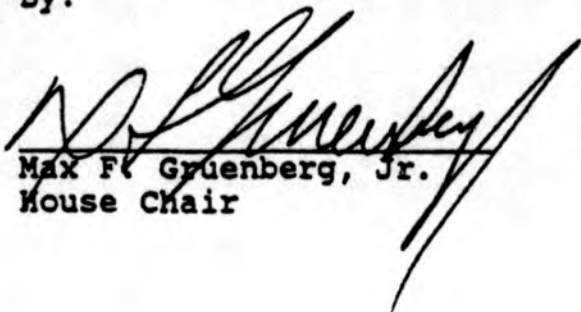
As we explained in the telephone conference yesterday, the Alaska State Legislature, like all other state legislatures, operates under constitutional, statutory, and procedural rules and requirements. Thus, any solutions that contemplate a statutory enactment will require the approval of a majority of the members of each house. Accordingly, no committee or group of legislators can purport to commit those majorities in advance of the event. At the same time, we can represent

that members of both houses, of both parties, including those of us who have been designated to consider and develop possible solutions, are personally committed to working with you and your representatives diligently, and in good faith. We look forward to starting this process on Monday.

Cordially,

The Joint Committee on Economic Recovery

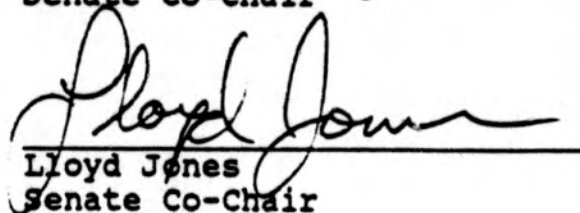
By:



Max F. Gruenberg, Jr.  
House Chair



Arliss Sturgelewski  
Senate Co-Chair



Lloyd Jones  
Senate Co-Chair

### 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

*Q Receivership may requirement to go to  
appropriate ct Natl or State Bank.  
(may have to go to receivership ct.)*



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.xls

| Summary                               |  |  | Nome<br>Kolzebue<br>Bethel<br>Barrow<br>Prudhoe Bay |       |           | Chugiak<br>Peters Creek<br>Eagle River |           |    | Fairbanks<br>Delta Jct/Tok<br>North Pole<br>Eielson AFB |     |           | Homer<br>Seward |           |    | Kenai<br>Soldotna |     |            | Juneau<br>Douglas |         |    | Palmer<br>Wasilla<br>Big Lake<br>Willow<br>Talkeetna |     |            | Valdez<br>Glennallen<br>Copper Center |             |       | Other<br>Alaska/<br>Unknown ** |  |  | Outside<br>Alaska |  |  | TOTAL ** |  |  |
|---------------------------------------|--|--|-----------------------------------------------------|-------|-----------|----------------------------------------|-----------|----|---------------------------------------------------------|-----|-----------|-----------------|-----------|----|-------------------|-----|------------|-------------------|---------|----|------------------------------------------------------|-----|------------|---------------------------------------|-------------|-------|--------------------------------|--|--|-------------------|--|--|----------|--|--|
|                                       |  |  | Anchorage<br>Birdwood                               |       |           |                                        |           |    |                                                         |     |           |                 |           |    |                   |     |            |                   |         |    |                                                      |     |            |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| *****                                 |  |  |                                                     |       |           |                                        |           |    |                                                         |     |           |                 |           |    |                   |     |            |                   |         |    |                                                      |     |            |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| 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   | 2,616,125 | 33                                     | 558,303   | 13 | 14,727,948                                              | 240 | 740       | 1               | 552,569   | 5  | 5,870,926         | 56  | 4,614,227  | 26                | 2,059   | 1  | 3,761,885                                            | 32  | 4,466,447  | 46                                    | 72,388,121  | 660   |                                |  |  |                   |  |  |          |  |  |
|                                       |  |  | 49.07%                                              |       | 3.58%     |                                        | 0.76%     |    | 20.18%                                                  |     | 0.00%     |                 | 0.76%     |    | 8.04%             |     | 6.32%      |                   | 0.00%   |    | 5.15%                                                |     | 6.12%      |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| 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  | 1,627 |                                |  |  |                   |  |  |          |  |  |
| Subtotal                              |  |  | 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  | 1,627 |                                |  |  |                   |  |  |          |  |  |
|                                       |  |  | 37.36%                                              |       | 2.79%     |                                        | 2.80%     |    | 25.17%                                                  |     | 0.07%     |                 | 0.06%     |    | 8.88%             |     | 2.22%      |                   | 0.43%   |    | 14.62%                                               |     | 5.60%      |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| AMB Total                             |  |  | 42,249,090                                          | 759   | 3,096,080 | 105                                    | 1,039,545 | 50 | 19,061,357                                              | 638 | 12,835    | 6               | 563,461   | 16 | 7,400,163         | 162 | 4,996,856  | 57                | 76,035  | 16 | 6,278,165                                            | 211 | 5,430,725  | 467                                   | 90,204,312  | 2,487 |                                |  |  |                   |  |  |          |  |  |
|                                       |  |  | 46.84%                                              |       | 3.43%     |                                        | 1.15%     |    | 21.13%                                                  |     | 0.01%     |                 | 0.62%     |    | 8.20%             |     | 5.54%      |                   | 0.08%   |    | 6.96%                                                |     | 6.02%      |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| *****                                 |  |  |                                                     |       |           |                                        |           |    |                                                         |     |           |                 |           |    |                   |     |            |                   |         |    |                                                      |     |            |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| TOTAL (CHG-OFFS & JUDGMENTS EXCLUDED) |  |  | 144,537,681                                         | 504   | 2,970,207 | 35                                     | 5,754,000 | 33 | 14,992,530                                              | 243 | 2,673,824 | 25              | 3,718,040 | 27 | 6,762,407         | 60  | 16,776,233 | 95                | 68,921  | 4  | 4,498,220                                            | 37  | 10,022,290 | 78                                    | 212,774,354 | 1,143 |                                |  |  |                   |  |  |          |  |  |
|                                       |  |  | 67.93%                                              |       | 1.40%     |                                        | 2.70%     |    | 7.05%                                                   |     | 1.26%     |                 | 1.75%     |    | 3.18%             |     | 7.88%      |                   | 0.03%   |    | 2.11%                                                |     | 4.71%      |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| TOTAL INCLUDING CHG-OFFS & JUDGMENTS  |  |  | 159,290,301                                         | 1,170 | 3,450,162 | 107                                    | 6,326,888 | 77 | 19,325,937                                              | 641 | 2,830,761 | 36              | 4,218,067 | 49 | 8,291,646         | 166 | 17,850,582 | 151               | 205,070 | 20 | 11,032,371                                           | 257 | 11,470,623 | 516                                   | 244,292,410 | 3,190 |                                |  |  |                   |  |  |          |  |  |
|                                       |  |  | 65.20%                                              |       | 1.41%     |                                        | 2.59%     |    | 7.91%                                                   |     | 1.16%     |                 | 1.73%     |    | 3.39%             |     | 7.31%      |                   | 0.08%   |    | 4.52%                                                |     | 4.70%      |                                       |             |       |                                |  |  |                   |  |  |          |  |  |
| *****                                 |  |  |                                                     |       |           |                                        |           |    |                                                         |     |           |                 |           |    |                   |     |            |                   |         |    |                                                      |     |            |                                       |             |       |                                |  |  |                   |  |  |          |  |  |

\*\* 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 back value.

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

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

| Summary           | Anchorage<br>Girdwood |     | Nome<br>Kotzebue<br>Bethel<br>Barrow<br>Prudhoe Bay |   | Chugiak<br>Peters Creek<br>Eagle River |    | Fairbanks<br>Delta Jct/Ick<br>North Pole<br>Eielson AFB |   | Homer<br>Seward |    | Kenai<br>Soldotna |    | Juneau<br>Douglas |   | Palmer<br>Wasilla<br>Big Lake<br>Willow<br>Talkeetna |    | Valdez<br>Glennallen<br>Copper Center |   | Other<br>Alaska/<br>Unknown ** |        | Outside<br>Alaska |    | TOTAL #     |            |     |
|-------------------|-----------------------|-----|-----------------------------------------------------|---|----------------------------------------|----|---------------------------------------------------------|---|-----------------|----|-------------------|----|-------------------|---|------------------------------------------------------|----|---------------------------------------|---|--------------------------------|--------|-------------------|----|-------------|------------|-----|
| <hr/>             |                       |     |                                                     |   |                                        |    |                                                         |   |                 |    |                   |    |                   |   |                                                      |    |                                       |   |                                |        |                   |    |             |            |     |
| First Interstate  | <hr/>                 |     |                                                     |   |                                        |    |                                                         |   |                 |    |                   |    |                   |   |                                                      |    |                                       |   |                                |        |                   |    |             |            |     |
| Real Estate/Const | 57,411,882            | 94  | 337,388                                             | 1 | 715,128                                | 2  |                                                         |   | 1,290,472       | 4  | 861,983           | 5  |                   |   | 8,085,047                                            | 18 |                                       |   | 549,118                        | 1      | 3,975,404         | 14 | 73,226,422  | 137        |     |
| 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                 |    |             | 22,203,221 | 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 | 1,696           | 2  | 48,855            | 6  |                   |   | 26,613                                               | 3  |                                       |   | 28,031                         | 3      | 27,508            | 4  | 497,743     | 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%                          |        | 3.57%             |    |             |            |     |
| Judgments         | 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%                          |        | 3.95%             |    |             |            |     |

# Anchorage Daily News

VOL. XLIII, NO. 51 60 PAGES

ANCHORAGE, ALASKA, SATURDAY, FEBRUARY 20, 1986

PRICE 25 CENTS

## Real estate bailout? No way, witnesses say

By JOHN LINDBACK  
Daily News reporter

JUNEAU — Prospects for a big state bailout of Alaska's depressed real estate market looked dim this week as legislators heard strong criticism of the idea from a trio of state officials and a major real estate broker.

State government created the oversupply of housing and commercial space with subsidized loans, according to state economist Gregg Erickson, Alaska Permanent Fund Director

Dave Rose, Commissioner of Revenue Hugh Malone and Connie Yoshimura of Fortune Properties in Anchorage. Government should avoid more tinkering with supply and demand, the witnesses said.

Legislators especially should resist grand proposals to buy foreclosed property and keep it off the market, they said. Such schemes would be too risky and too expensive, costing hundreds of millions of dollars. They could backfire, just like state loan subsidies backfired. Or they might give some

property owners an unfair advantage over others, the witnesses said.

"We spent ourselves into this problem. Now the situation seems to be: Can we spend ourselves out of it?" Malone said. In theory it would be best, he said, to let natural market forces take over.

"Proposals to assist only a segment of the market, say the

See Back Page, REAL ESTATE

## REAL ESTATE BAILOUT: Witnesses tell legislative panel that it is a bad idea

Continued from Page A-1

commercial real estate market, are hard to take seriously when so many others also have been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford," said Erickson, senior economist for the governor's Office of Management and Budget.

He reminded legislators that some Alaskans are winning because of the current economic slump. The legislature, in a good-hearted attempt to help property owners, could hurt renters who have benefitted from the real estate collapse.

About 31,000 Anchorage households pay rent, he said.

"Assuming 2.4 persons per household, and if the average rental cost two years was \$200

per month per person, the roughly 40 percent drop in rents has added an average \$960 to the annual spendable incomes of these 75,000 people," Erickson said. "This 'renter's dividend' has thus increased Anchorage's spendable income by about \$72 million, and it has had about the same economic impact as would result from hiring 1,400 new state employees in Anchorage."

Malone, Erickson and the others testified before a House subcommittee examining Alaska's sick real estate market and ailing banks.

Some Alaskans, including Anchorage Mayor Tom Fink, want legislators to use state money to reverse the estimated \$8 billion drop in real estate values during the past two years. Fink suggested that the Alaska Permanent Fund buy foreclosed property

and keep it off the market until conditions improve. Others want more small-scale help. Some witnesses suggested that legislators in some way help the little guy, particularly condominium owners, cope with declining property value.

But the big bailouts drew the strongest criticism from the witnesses. Rose, the permanent fund's executive director, suggested instead that the banks and the Federal Deposit Insurance Corporation form their own corporation to manage foreclosed property and schedule it for sale. That way the private sector, not the state, would be attempting to influence real estate values by regulating supply.

The state, at the most, should help the banks form their own corporation by giv-

ing it some operating funds, Rose said.

Yoshimura, a commercial real estate investor, showed little sympathy for Alaskans who lose in the commercial real estate game. People who invest in commercial property gamble with market conditions, she said. They knew the risks when they bought the property, she said. Many bought commercial property to get a tax write-off.

"I don't think the state has a social or political obligation to help someone who lost on a roll of the dice," she said.

She warned legislators to avoid state purchase of \$330 million in loans held by the Federal Deposit Insurance Corporation. The FDIC acquired the loans when First Interstate Bank and Alaska Bank of the North both failed.

Other banks in Alaska

were given the opportunity to acquire the loans and they rejected them, she said. They are, indeed, the "dogs of the market" and may not be saleable, she said.

House members seemed receptive to the critics.

"There is an expectation on the part of the public at large that the legislature do something," said Rep. Pat Pourchot, D-Anchorage and vice-chairman of the House Finance Committee. The legislature ought to concentrate more on small-scale ideas, such as demolition of more than 100 units of substandard housing at Anchorage's Willow Park, he said.

Some legislators even seemed concerned about small-scale state participation. They grilled representatives of the Anchorage Economic Development Corporation, which wants

state help to purchase the \$330 million in loans now held by the FDIC. The group wants the legislature to give it \$250,000 to evaluate the FDIC portfolio. Then, if it purchases the portfolio, it wants the state to back its financing with a guarantee.

H.A. "Red" Boucher, D-Anchorage, asked Dave Cuddy, a former legislator who is now a banker, if the legislature ought to buy into the Anchorage Economic Development Corporation plan. His answers didn't produce much confidence.

"You were a legislator. Would you vote to do this?" Boucher asked.

"I won't answer. I really won't answer," Cuddy said.

"Do you think it's good bank business to do that?" Boucher asked.

"I really prefer not to answer," Cuddy said.



WOHLFORTH, FLINT & GRUENING

TO: Subcommittee on Banking and Housing  
Joint Committee on Economic Recovery

FROM: Robert B. Flint

RE: Summary of Anchorage Economic Development Corporation  
proposal for purchase and management of FDIC assets.

The Anchorage Economic Development Corporation or its nonprofit subsidiary proposes to purchase at a discount assets owned by the FDIC acquired from Alaska Bank of the North and First Interstate Bank. Book value of the portfolio is approximately \$330 million.

CONTENTS OF PORTFOLIO

The assets consist largely of loans in the amount of approximately \$245 million that have not been foreclosed which include \$103 million in loans presented to NBA and returned and \$142 million in classified and delinquent loans. \$37 million in addition loans have been charged off. \$28 million is foreclosed real estate and \$20 million are bank premises.

PURPOSE OF TRANSACTION

The AEDC would manage the portfolio with the following goals:

1. Reduce or prevent future foreclosures in order to keep Alaskans in their business and homes.
2. Manage owned real estate without a negative impact on real estate market. Warehouse property as necessary.
3. Produce cash flow needed to operate program and repay financing.
4. Distribute profits, if any, to public and nonprofit economic development organizations statewide.

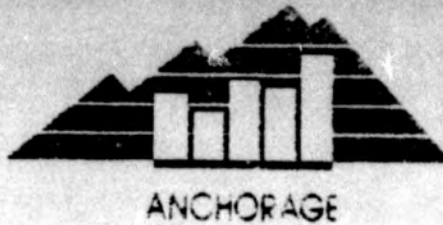
Economic stabilization rather than <sup>near</sup> ~~new~~ term profit is the overall goal.

#### PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.
2. Terms of sale will depend on appraisal of portfolio.
3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.
4. Credit enhancement can take the form of a State "moral obligation".

#### \$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The \$250,000 will fund such an assessment. If the sale take place the \$250,000 will be repaid from bond proceeds. If it does not it becomes a grant.



**ANCHORAGE ECONOMIC  
DEVELOPMENT CORPORATION**

**\$250,000**

**Appropriation to Review FDIC Properties**

**- BUDGET -**

|               |                         |
|---------------|-------------------------|
| \$ 150,000    | Accountants             |
| 65,000        | Banking Consultants     |
| 25,000        | Legal Fees              |
| <u>10,000</u> | Administrative Expenses |
| \$ 250,000    | TOTAL                   |

Time to complete study after award - 30 days.





**ANCHORAGE  
ECONOMIC  
DEVELOPMENT  
CORPORATION**

February 9, 1988

Honorable Kay Brown  
Joint Committee on Economic Recovery  
Alaska State House  
P.O. Box V  
Juneau, Alaska 99811

Re: FDIC Asset Purchase

Dear Representative Brown:

All of the proposals dealing with the acquisition of the \$300 million Alaska FDIC portfolio require a prospective purchaser to conduct a thorough analysis of the assets. At a potential price range of \$75 to \$125 million no purchaser can simply take the FDIC's price since, as receiver, the FDIC is required to maximize its own return for the benefit of bank creditors, stockholders and itself. The proposed \$250,000 appropriation in the Jobs bill for this analysis is thus an essential step no matter what solution is eventually found to this problem.

The Development Corporation has accepted the FDIC's offer to review 20 sample files from the portfolio to establish the basic assumptions under which we would conduct a full review. We have assembled a three-person team of Alaska banking experts with loan, real estate and finance expertise who will begin work on these files this week. We will be happy to share their conclusions with the Legislature. A full review would require a much larger team working over a period of several weeks. In the meantime, we urge the passage of the \$250,000 appropriation in order that the Development Corporation can facilitate the total review when and if necessary.

Very truly yours,

Scott Hawkins  
President

550 West 7th Avenue  
Suite 850  
Anchorage, AK 99501  
Telephone (907) 258-3700

# FORTUNE PROPERTIES MARKET NEWS

Volume 4, Issue 1, 1988

## 1988 Is The Year For a Turnaround in Residential Real Estate and Here Are The Reasons Why...

By Connie Yoshimura

The 1988 real estate market is going to be a buyer's market. Although the fear still exists amongst buyers that a home purchase today will be worth less in a few months, that fear will abate in the second quarter of 1988.

At that time, it will be apparent that there is a tremendous lack of quality inventory. Already in 1988, many foreclosed HUD properties which are sold by the bid process are receiving multiple offers at the first offering and, in some cases, are selling for more than the asking price by HUD.

The year end MLS statistics also substantiate that inventory is sinking. MLS reports that residential inventory was down by over 38% on the basis of number of properties listed for sale. At the same time inventory went down, the number of unit sales reported declined by only 13%. These two figures, measured by number of listings and reported sales, as opposed to dollar volume, indicate that there is a healthy absorption of residential inventory going on in the Anchorage marketplace. It's true that this absorption

has not yet helped prices but it will before the end of 1988. One of the reasons that prices will stabilize in 1988 is the fact that there will be very little new construction.

New building permits for houses didn't even reach the 200 mark for 1987 and, although it is anticipated that there will be between 200-225 building permits issued in 1988, most of that won't come until the third quarter. That's because banks aren't interested in lending for more house building when they are straddled with innumerable repossessed properties.

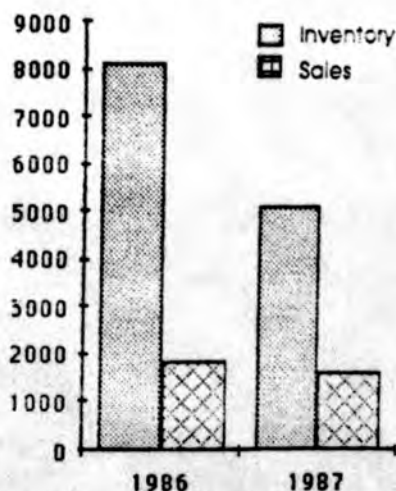
The repossessed inventory owned by institutional sellers such as Fannie Mae, AHFC, MGIC, FHA, and VA are mostly in the lower price ranges under \$100,000. The majority of it is in condos which will take many years to sell. However, the average priced single family home as reported sold by MLS is \$127,000.

*The foreclosed inventory held by institutional sellers is therefore not going to fulfill the buying needs of the public. This will*

become apparent as buyers in the spring try to find quality housing to purchase.

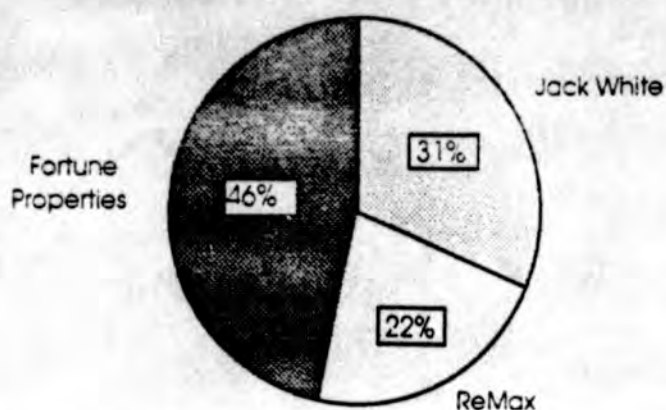
For buyers, 1988 may be the last year that they are going to be able to purchase at non-escalating prices. All residential real estate statistics, as well as state economic projections, indicate that we are going to hit the bottom of the recession in 1988 and that things will begin to turn around in the third quarter. For residential real estate, it will happen a few months sooner.

Residential Inventory  
vs. Sales Activity--  
January - November





**QUARTERLY ADVERTISING SUMMARY  
OCTOBER - DECEMBER, 1987**



Combined Anchorage Daily News and Anchorage Times  
Classified Advertising for the Anchorage Bowl Only

## Fortune Out-Advertises All Other Brokerages

It's tradition in many cities across the country that residential real estate is advertised in the local newspapers. Pick up any paper from San Francisco to Boston and you can get a pretty good feel for what's going on in the residential real estate market by reading the classified advertising section of the paper. Anchorage is no different.

During the last quarter of 1987 FORTUNE PROPERTIES out-advertised its major competitors by 3 to 2, as indicated by the chart above. The chart was compiled by counting the number of classified ads which appeared in both the Anchorage Daily News and the Anchorage Times for residential real estate in Anchorage, Alaska. It did not include Alyeska or the Valley. Of the big three, only FORTUNE PROPERTIES consistently placed more advertising for the fourth quarter. The

figures do not include display advertising such as Fortune's weekly open house display, builder and institutional accounts.

In tough economic times, FORTUNE PROPERTIES is committed to meeting the advertising needs of its sellers. Institutions such as Fannie Mae, MGIC, and HUD pay for and promote their own properties. It is difficult for an individual seller to compete in the marketplace for buyers' attention. That's why FORTUNE PROPERTIES, a locally owned and operated brokerage, is committed to advertising the properties of individual sellers in the marketplace. While other companies have cut back on their advertising budgets, FORTUNE PROPERTIES believes that you can't sell a home without advertising it.

### Fortune's Agent Directory

|                      |          |
|----------------------|----------|
| Carolyn Abney        | 345-5824 |
| Bob Allen            | 274-8081 |
| Nelda Anderson       | 563-7132 |
| Dave Aquino          | 337-2264 |
| Chip Baye            | 272-0500 |
| Carole Bennett       | 278-9682 |
| Jack Blair           | 345-1828 |
| Dolores Bowman       | 345-3832 |
| Dave Brock           | 694-6090 |
| Sara Cheatham        | 345-5782 |
| Bill Davis           | 338-2526 |
| Dick Decker          | 562-5765 |
| Sue Dvorak           | 243-0153 |
| Darlene Eliason      | 346-2835 |
| Barbara Garrouette   | 344-2272 |
| Margaret Goche       | 276-0885 |
| Barbara Granger      | 345-6462 |
| Karen Griffin        | 248-9134 |
| Katherine Herfindahl | 243-4210 |
| Barbara Huffsmith    | 562-6400 |
| Virginia Johnson     | 272-6704 |
| Ken Kaneshiro        | 694-8038 |
| Sylvia Kobayashi     | 272-4718 |
| April Lee            | 345-5055 |
| Marty Margeson       | 278-9275 |
| Johnie O'Nan         | 346-2390 |
| Leon Reed            | 337-7967 |
| Al Rowand            | 272-4176 |
| Kathleen Rowand      | 272-4176 |
| Ida Solomon          | 344-3282 |
| Elouise Schmidt      | 562-7275 |
| Suzanne Taplin       | 278-2358 |
| Niel Thomas          | 345-1552 |
| Dennis Tweeten       | 333-0379 |
| Vivian Werth         | 345-2645 |
| Connie Yoshimura     | 562-7653 |



#### FORTUNE PROPERTIES

Is an Authorized  
AHFC Broker  
MGIC Broker  
Fannie Mae Broker  
FHA and VA Broker

For more information on these  
properties, please call

**562-7653**





**\$110,000**  
**Woodside East**

Reduced \$25,000. The best buy in Woodside East located on Sorbus Way. This home has a special entry which sets it apart from the rest. Two bedrooms, two baths, double car garage. GAS HEAT.

**\$114,500**  
**Five Bedrooms**

2,274 square foot East side home with great potential. Big lot with city and mountain views. Five bedrooms, three full baths, family room, deck, and BIG DOUBLE GARAGE.

**\$183,000**  
**Two-Story on Hillside**

This 2,700 square foot two-story home is easily accessible just off Hulse Drive. Natural cedar siding exterior, loads of built-ins, kitchen island, sunken family room, GIANT HOT TUB plus balcony sitting area upstairs and four large bedrooms. Master bedroom has its own private bath. Double car garage and gas heat.



**\$115,000**  
**Wrangler's Way**

Lower Hillside home off Birch Road on quiet dead-end street with city, mountain, and inlet views. Circular driveway, gigantic storage shed, and WELL LANDSCAPED YARD. Oversized double garage with workshop, 220 power, and sink. New carpet and large kitchen with extra cabinets.

**\$225,000**  
**Bring Offer**  
**Four Bedrooms**

Four bedroom home with family room, fireplace, vaulted ceilings, formal living room, and BEAUTIFUL HARDWOOD FLOORS. Private and spacious with a large formal dining room and a kitchen complete to the last gourmet detail. DOUBLE CAR GARAGE. Situated on a lovely wooded view lot.

**Fannie Mae**  
**Lease Purchase**

This zero-lot line home is available for lease purchase. Get up to six months of rent credited towards your down payment. Located near Lake Otis with an asking price of just \$59,900.



**\$229,000**  
**Kempton Hills**

Beautiful home located in south Anchorage's best selling subdivision. This natural cedar sided home has a formal dining room and living room plus an exciting loft-study area and a family room. Don't miss this opportunity to live in Anchorage's finest southside subdivision.

**\$169,500**  
**John Hagmeier Company**  
**Homes**  
**in BROOKWOOD HILLS**



Wide covered entries lead to wood and ceramic tile foyers, vaulted ceilings, and custom wallpaper accents. Homes now available from three to five bedrooms, 2 1/2 baths, JACUZZI TUBS, and family rooms off the kitchen.



**\$109,500**  
**Oceanview North**

Immaculate three bedroom, two bath home with its own private bath off the master. Located on a large treed lot in south Anchorage. CATHEDRAL CEILINGS, fireplace, and well designed kitchen. Double car garage. Located not far from excellent elementary school. Surrounded by much more exclusive and expensive homes.

**\$107,000**  
**Double Garage**  
**Rock Fireplace**

Lovely family home with view of the mountains. Family room and sliding glass door off the dining area. Two car garage, fenced yard. Seller will consider carrying paper.

**\$135,000**  
**Assumable**  
**East Side Location**

Immaculate home convenient to buses, college, and hospitals. Quarry tile in entry, kitchen, and dining room. Rock fireplace in living room PLUS WOODSTOVE IN THE REC ROOM. Four bedrooms, two baths. Kitchen complete with Jenn Air and refrigerator...DOUBLE HEATED GARAGE...and a beautiful treed lot.

**\$324,500**  
**Retreat**  
**Southpark**

Private family living above Potters Marsh. 3,887 square foot home. FOUR BEDROOMS AND FOUR BATHROOMS. Two fireplaces, one in den and one in living room, complete kitchen with breakfast nook. Private guest area with full kitchen plus family room, six person jacuzzi. All this and more located on a quiet cul de sac in south Anchorage.

## FORTUNE MANAGEMENT Created To Handle Residential Property Management

In the fourth quarter of 1988, **FORTUNE PROPERTIES** created a new corporation called **FORTUNE MANAGEMENT** to handle the residential property management needs of its clients, including major institutional sellers. The Municipality's Housing and Population study, which was released in September 1987, confirmed a need which Fortune had felt all during 1987. With over 14,000 vacant residential properties in An-

chorage, it was obvious there was a need for a new property management company.

**FORTUNE MANAGEMENT** already has accumulated an inventory of several hundred properties which it manages and makes available for lease. The new company's services include residential leasing, property management and computerized income and expense statements and rent reports for property owners. The corporation was

funded by **HOME SAVINGS BANK**. It is headquartered in the second floor of the **CHUGACH ALASKA NATIVE BUILDING**, 3000 A Street, Anchorage, Alaska and is open seven days a week. For competitive leasing and property management rates, call 562-5868.

- Residential Leasing
- Property Management
- Computerized Accounting and Rent Reports
- Open 7 days

562-5868

**FORTUNE  
MANAGEMENT**

From: *Connie Yoshimura*

**FORTUNE PROPERTIES**  
3000 'A' Street, Suite 101  
Anchorage, AK 99502

22 USA

*Senator Artiss Sturgulewski*  
*P.O. Box V*  
*Juneau, AK 99811*



# Peter McDowell

## STRATEGIC DEVELOPMENT SERVICES

A DEVELOPMENT VENTURE COMPANY  
AN APPROPRIATE FINANCIAL INSTITUTION FOR ALASKA

### Background

Rural Alaska (Alaska excluding the boroughs of Anchorage, Fairbanks, Juneau, the Kenai Peninsula, Ketchikan, and Mat-Su) is the source of much of Alaska's economic wealth (60-80 percent depending on the export value of crude oil). It only contains about 10-15 percent of Alaska's population and about 12-15 percent of the nonseasonal jobs. Those people and jobs, however, produce most of the wealth enjoyed by the other 85-90 percent who live and work in urban Alaska. With the exception of Kenai and Ketchikan, most urban Alaskans do not live near any basic economic activity other than tourism and national defense installations at Anchorage and Fairbanks. Future expansion and diversification of the Alaskan economy's basic sectors will also take place in rural areas, because much of it will depend on the locational, fish, timber, subsurface and scenic and recreational resource values which are concentrated there.

Moreover, any vision of the future of Alaska's economic growth should be solidly grounded in "fundamental economics", i.e., that economic activity in a specific geographic place will be limited to subsistence unless exports to nations, regions, and states outside its boundaries are produced. This also means that a secondary (service) economy cannot exist in the absence of a primary (export) economy. Since contact with the Russians, Alaska has always been an exporter - furs, whalebone, whale oil, gold, salmon, walrus ivory, other minerals, oil and gas, other fish, crab and forest products. Alaska also exports geopolitical location (to the U.S. military), public domain (to federal civilian agencies) and scenic and recreational resource values (to tourists). Alaskan exports of manufactured goods are principally LNG and urea from the Kenai, and pulp, cants, and heavy timbers from Southeast. The fundamental insight is no basic, no secondary.

The concentration of basic economic activity does not appear to have led to any concentration of financial assets or services in rural Alaska. In fact, the opposite seems to be true. Most financial assets and services are in urban areas, particularly Anchorage. Rural financial services appear to consist mainly of gathering deposits, some of which are in turn used to create financial assets (loans, leases and securities) in urban places.

Most Alaskan economic activity controlled by residents is secondary (service) by nature. That is also the principal kind of economic activity financed by Alaskan financial institutions, particularly those which have failed, or are in danger of failing in 1987. It is likely that the successful Alaskan financial institutions of the future will not specialize in the financing of speculative secondary (service) businesses. They will probably specialize in either:



- investing deposits gathered from Alaska in a blend of Federal government and other investment-grade securities, and loans to conservatively-managed Alaskan businesses in urban places, or
- facilitating the development and/or expansion of export-based economic development projects in rural Alaskan places that involve the export of one or more of Alaska's natural resource values:
  - fish products
  - timber products
  - hard rock minerals
  - coal
  - geopolitical location
  - public domain
  - oil and gas
  - scenic tourism
  - recreational tourism

This function is currently carried out principally by investment groups and private corporations from Canada, Japan, and the United States and some ANCSA corporations, for both resident and nonresident businesses engaged in basic (export) sector activities. There is also some involvement of Canadian, Japanese, and U.S. banks and investment banks.

#### An Appropriate Financial Institution

Central to any "Alaskan economic strategy" is a vision of Alaska's economic future where a vital, market-driven basic export sector provides opportunity for individuals and businesses to take risks and to use their imagination, knowledge, skills, energy, capital and technology - the basic stocks of wealth-creating capability - to create new products or services that markets want, or improve on those already being provided. In other words, to compete. One potential State economic strategy might be to: Go forth and do the right thing - create jobs by building private businesses.

There is an investment opportunity to seize the lead role in development of the kind of private financial institution appropriate to the strategies inherent in this vision. The development of an appropriate financial institution to help enhance the wealth-creating capability of Alaskan businesses is a compelling necessity, not a redundant luxury.

Such an institution would need to be substantially different from all existing Alaskan financial services agencies, if it were to concentrate its efforts on expansion of basic export sector economic activities. It could be structured as a blend of the venture capital fund model successfully operating elsewhere in North America, and the "development finance company" model successfully implemented in other countries by the International Finance Corporation, the private sector affiliate of the World Bank. This blend could be called a "development venture company" (DVC). The key factors for success of a DVC include, in priority order:

1. A viable expanding market for its services, consisting of individuals and entities with entrepreneurial will, financial capital, and export resources.

2. Personnel with the training and temperament to add value by nurturing and counseling those persons who are willing to engage in rural, export sector entrepreneurship, including the ability to:
  - identify business opportunities,
  - assess entrepreneurial skills and commitment,
  - develop pragmatic business plans with adequate data about critical success factors including skills, markets, equity, and other financing,
  - evaluate economic development project viability, and
  - restructure or reject nonviable proposals early.
3. A financial capital structure based on a high proportion of equity and stable, low-cost, long-term debt.

This model includes several features which are distinctly unlike any existing Alaskan financial institutions, including:

- Close linkage with State government agencies and programs that have a mandate to help promote and develop export base industries - e.g., the Alaska Industrial Development and Export Authority (AIDEA), as recently strengthened, Trade Alaska, and the Departments of Commerce and Economic Development and Community and Regional Affairs.
- Predominant emphasis on active lending and investment in development projects, i.e., asset management, rather than the current liability management (deposit-gathering) emphasis of most Alaskan financial institutions.
- Provision of regular and substantial management assistance to borrowers/investees, much like the nurturing activities of venture capitalists and investment bankers.
- Unprecedented use of technology in computing and communications. All day-to-day communications between project locations and the financial institution must be conducted with maximum facility and power. This is only obtainable through leveraging human resources with communication and information technology.
- Strategic alliances with customers, federal, State and local governments and other leading economic institutions involved with export base industries.
- Strategic alliances with Japanese and other foreign private financial institutions with the wherewithal to participate in the financing of, and technical assistance to, basic export sector economic development projects.

- Recruitment, and investment, of a pool of financial capital from a variety of sources depending on the organizational form selected.
- Profits from fees for services and risk-sharing, dividends, interest, and capital gains.
- Employment of personnel distinctly different from the typical Alaskan bank management staff of the 1980s. The new personnel need to be recruited and trained to emphasize:
  - ° Advocacy for the ideas and business plans of their customers,
  - ° Export base development project design and technical assistance skills,
  - ° Shared Alaskan values - the "corporate culture" of our state,
  - ° Rural Alaskan factors for success, and
  - ° Alaska Native background, with special emphasis on ANCSA corporations.
  - ° Service and management assistance skills in:
    - Application of technology
    - Export financing
    - Foreign financial markets and institutions
    - Acquisitions, mergers, and divestitures
    - Seafood harvesting and processing
    - Timber harvesting and processing
    - Mineral exploration, extraction, and processing
    - Tourism attractions, accommodations and access
    - Rural construction
    - Rural real estate development
    - Rural governance
    - Energy
    - Transportation
    - Other infrastructure

This people component represents a commitment to strive for modernization and would open a clear opportunity for Alaskans to grow into the present and future business world of knowledge-based employment and technology-driven services that are already reshaping Alaska's economic opportunities.

#### Financial Structure

The contemplated institution must have extreme stability of equity and debt capital. It should rely on:

- Equity capital from investors.



- Long-term bond debt - perhaps issued by AIDEA - to help capitalize the institution in as stable a fashion as possible.
- Core deposits from rural areas (at present only six or seven percent of total Alaskan bank deposits), depending on the entity selected.
- Core deposits from urban places, to the extent available (likely to be limited to public funds), depending on the entity selected.

#### The Market for Regional Services

A principal mission of such a financial institution would be regional services - development project services including financing and management assistance which add value - to regional and village ANCSA corporations and other entrepreneurs who are actively developing resource export projects in rural places. The institution could, for example, specialize in regional services for companies that do business in rural Alaska - whether the Interior, North Slope, Northwest Arctic, Bering Sea, Southwest, Gulf Coast, or Southeast regions. Regional service functions would consist primarily of:

- Information and education about rural, state, and worldwide economics, markets and technology.
- Management assistance for designing the financial infrastructure of development projects.
- Recruitment of equity and long-term debt capital sources.
- Provision of debt for exploration, development, working capital for operations, and other shorter-term purposes.

These services can, and must, be rendered with quality and excellence as the foremost values of the institution and its people.

#### Leveraging Existing Financial Institutions

As stated, there are no private Alaskan financial institutions currently operating on the development venture company model. In the public sector, AIDEA now has statutory authority to assist in this field, but limited prior experience.

Certain banks do operate (principally as deposit-gatherers) in rural Alaskan places. These include UBA, UBASE, NBA, FNBA, First Bank and B.M. Behrends. It is possible to conceive that an existing bank could form the core of an export-oriented rural Alaskan DVC. They would, however, require major management, skill, and technology transfusions to become successful in development project finance activities.

Beyond these, there do not appear to be any existing domestic financial institutions designed for, or in pursuit of, Alaskan development project finance activities. There do, however, appear to be numerous offshore institutions that are so engaged.

These offshore institutions may represent an opportunity for reverse leverage, by capitalizing on their interest in expansion of their DVC activities in association with Alaskan partners. Such partnerships could represent significant access to the human, financial, and technological resources necessary to this proposed expansion of the domestic Alaskan financial infrastructure.

#### Alternative Entity Forms

An Alaskan "development venture company" could be structured in several ways - from a unit within an existing company, a subsidiary thereof, a joint venture corporation, an investment bank, to a State-chartered commercial bank. Each organizational form has advantages and disadvantages. These include control, economies of scale, financial risk, capital requirements, complexity, and government regulation as shown below:

| <u>Entity</u>                               | <u>Corporation<br/>Unit</u> | <u>Corporation<br/>Subsidiary</u> | <u>Joint<br/>Venture</u> | <u>Investment<br/>Bank</u> | <u>Commercial<br/>Bank</u> |
|---------------------------------------------|-----------------------------|-----------------------------------|--------------------------|----------------------------|----------------------------|
| Control                                     | Most                        |                                   |                          | Least                      |                            |
| Economies<br>of Scale                       | Least                       |                                   |                          | Greatest                   |                            |
| Financial Risk -<br>Spreading               | Least                       |                                   |                          | Greatest                   |                            |
| Capital<br>Requirements                     | Low                         |                                   |                          | High                       |                            |
| Complexity and<br>Cost of<br>Implementation | Least                       |                                   |                          | Most                       |                            |
| Degree of<br>Government<br>Regulation       | Least                       |                                   |                          | Greatest                   |                            |

Peter McDowell  
June 1987



# Sealaska eyes FDIC properties

By Robert Laurie

**JUNEAU** — The Sealaska native corporation has taken the lead in forming an investor group to buy real estate taken over by the Federal Deposit Insurance Corporation in the failure of two Alaska banks. Sealaska president and chief operating officer Bill Howe confirmed Monday the corporation has hired Juneau consultant Peter McDowell to research whether a private group could profitably buy and hold the properties until the market improves. The FDIC holds more than 600 properties worth an estimated \$28 million from the failures of the Alaska National Bank of the North and First Interstate Bank. It also owns another 3,000 troubled commercial and consumer loans valued at about \$320 million. Commerce and Economic Development Commissioner Tony Smith began the process several weeks ago by talking with several native corporations and "major investors."

Smith said he is seeking to prevent an outside investor from picking up the properties from the FDIC for a fraction of their value, then dumping them on the market, forcing other property values down.

Smith said he could "facilitate" the formation of a Real Estate Investment Trust by making the initial contacts, but said a private entity would have to lead the group.

"It's time for someone to get this thing focussed," said Sealaska's Howe, "so we're picking up the ball."

Howe said the corporation is putting up about \$30,000 to explore the idea.

McDowell is meeting with other potential investors to measure interest in the concept.

"It's bigger than Sealaska, there has to be a lot of other players, too," Howe said.

McDowell also touched base with the FDIC to get an accurate accounting of the properties in its hands.

FDIC official Herbert Chin said it will take the agency another couple of weeks to inventory and value the property it holds.

Chin said the FDIC is interested in selling the assets and would "look at any offer that comes in to us."

Howe said McDowell will add experienced real estate professionals,

including an appraiser to his study team.

Howe said he expects the results of McDowell's study in about six weeks.

"If it's possible to structure a REIT on an economically sound basis, we would have some fairly significant dollars to invest," said Howe.

But Howe said the native corporation doesn't plan to lead the group once it's formed.

"We aspire to be an investor, not necessarily the manager," said Howe.

Sealaska is familiar with the state's real estate and banking industries. It was a major owner of United Bank Alaska before its consolidation with Alaska Mutual Bank into to form Alliance Bank.

See Properties, page D-6

## Properties: 'We're picking up the ball'

Continued from page D-6

"If Sealaska is successful in its efforts, it could pre-empt a Senate proposal to form a 'bridge bank.'"

Sen. Tim Kelly, R-Anchorage, is drafting a measure that would set up a corporation to buy and hold commercial real estate until the market improves.

As initially proposed by permanent fund Corporation Execu-

tive Director Dave Rose, the state would put up about \$15 million dollars from the state's general fund as seed money.

Testifying before the Joint Economic Recovery Committee Monday afternoon, commissioner Smith questioned the state's role in such a plan.

"How does a public official determine who are the winners and losers?" he asked.

Smith said it was better left to the private sector.

Smith said there are no plans for the state to invest in the Sea-

laska venture, but "I suspect it will be put on our platter."

He cautioned it was a very high-risk venture.

"Every single one of these assets is something someone looked at and determined was substandard (a poor risk)," Smith said.

Nevertheless, Smith told the committee the Sealaska effort could work out.

"If the people doing it are successful, I assure you we'll be accused of giving away the store," said Smith.

Anchorage Times  
c. 1/28/85



D

ALASKA INVESTMENT BANK & TRUST

A Real Estate Holding Company  
for the people of Alaska

Proposal by:

John M. Bashaw, Jr.

12746 Reata Drive  
Anchorage, AK 99516  
office 278-4556  
home 345-3212

CORRECTED COPY FEBRUARY 15, 1988

## OVERVIEW

We have, at this moment in time, one of the greatest opportunities for all citizens of the State of Alaska to participate in an investment that should help to provide stability in our economy and, in turn, a profit to themselves.

Most people realize we have an increasing loss of demand and an escalating overabundance of supply of real estate. There is not much that can be done in the near future to move the demand curve to a more favorable position. One that will have a dynamic impact on our economy (\$40/barrel oil excepted). This is not true; however, of the supply side.

Simply put - we now have the opportunity to buy low, deposit in savings, and (hopefully) sell at a profit in the near future - as with any investor. Also, I might add, I think we can safely say that we may never see this opportunity again.

Essentially, I see the current situation in three distinct categories.

1. The individual investor who is now buying properties and loans on the open market and from institutional owners such as FDIC. This is ideally where the market should remain, however, it does have enough positive impact on the current economy.
2. Institutional and strong individual investors who have been, and are continuing, to look for bulk purchases at large discounts. These buyers speculate (for cash) that these properties and loans can be "worked" until the economy improves and the assets sold at a profit. Simply said - high risk, cash intensive, with potentially large losses or gains. Please note, when we speak of assets we are talking about

two separate types. One is the buying of the actual real estate and the other is the purchase of loans and mortgages. The latter generates fair interest from potential buyers, however, I am not aware of any investors who are seriously interested in buying Alaska real estate in bulk.

3. The third approach, which seems to be the most touted and certainly the one getting the most attention, is the exclusive use of public funds or public debt to purchase speculative and selective real estate. We should strongly oppose any such plan!



## JURY APPROACH

This plan of attack is simple, easy, and just takes one key participant or agency to coordinate the initial effort.

Lets get any and all ideas out on the table and come up with one recommended course of action that has a reasonable probability of being acceptable to the people first, and in turn public representatives and private industry. At the present time we have a number of proposed solutions and recommendations in various degrees of quality and territorial imperatives. Now is the time to draw all these efforts into one cohesive plan.

JURY SELECTION...The Department of Commerce recommends, and the Governor invites key participants to a conference to develop a workable economic plan. The jury will consist of one representative from the following areas and agencies with consideration to be on a statewide basis.\*

- Native Corporations
- Private Industry
- Legal Profession
- Corporation Taxation
- University of Alaska
- Banking Industry
- Legislature
- Department of Commerce
- Permanent Fund
- AIDA
- AHFC
- Real Estate Industry
- Local Government

\*Names available upon request.

These representatives are to be invited with only a few rules to the game.

1. Only the final plan will be made public. Any ideas expressed or explored during the conference are to be totally confidential and will not be discussed outside of the "jury" room.
2. Nothing is sacred. Any and all sources of funding, participation, and structure will be looked at and there will be no dumb ideas. Of course, some ideas may be rejected sooner than others.

3. There is no designed final plan, up to and possibly a final recommendation to do nothing.
4. All attendees must be willing to participate full time and continue until a majority agrees on a published plan or disband as a "hung jury".
5. All attendees must be willing to accept input from the public. This includes related professionals, as the "jury" has been limited to insure a workable number of participants.

## EVERYONE CAN PARTICIPATE

As Dr. Hayden Green pointed out the other day - "Everyone wants to go down in history as the slayer of the economic dragon."

Question? Is there a way we can turn our current economic situation into an investment opportunity that will:

1. Not increase public debt.
2. Minimize the use of public funds.
3. Spread any use of public funds over a number of sources (risk management).
4. Cultivate and attract private capital to the maximum extent possible.
5. Establish a profit motivated entity that will benefit all participants and investors.
6. Assist in stabilizing our economy and stop or slow the erosion of property values.
7. Cease operation when no longer required.

YES!

Before I continue, I'd like to give credit to some of the clear thinkers on this issue. Thank you for your thoughts and ideas.

Dave Rose

Buz Hoffman

Hayden Green

Ken Gain

Establish a holding bank with the clear purpose of buying foreclosed real estate at discount prices, moth balling the real estate, and liquidating these assets, at a profit, in the near future.

Seed money for development to be obtained by grants from

1. Municipality of Anchorage
2. State of Alaska
3. Federal funds (grant application)
4. Railbelt Energy Fund

The holding bank is to be profit motivated and structured.

The institution is to be chartered for no more than a 10 year life.



The Bank & Trust is to be (initially) equity financed with three basic stock issues.

1. Preferred stock (cumulative, first out, non voting) to be made available to any and all private investors, large or small, institutional\* or individual. Issue to be at a \$1 par and, (as an additional incentive to attract private capital) for each share of preferred the stock holder automatically receives one share of Class A common stock.
2. Class A common stock (second out, voting) to be issued at a \$10 par and to be purchased with public funds from all of the following (spread the risk):

AHFC

AIDA

Permanent Fund earnings

Railbelt Energy Fund

Legislative appropriation from:

operating budget

capital budget

ASBA

3. Class B common stock, (last out, non voting) at a \$100 par to be purchased through an exchange of real estate at discounted values. These purchases (exchange of real estate for stock) are to be limited to real estate owned by institutional investors (lenders or mortgage insurance agencies) such as:

Banks

FNMA

HUD

AIDA

AHFC

MGIC

FDIC (may require cash only)

\* examples: Native Corporations, Alaska Railroad, Banks, Alascom, ARCO, North Slope Borough, Municipality of Anchorage, Alaska Airlines.

It is important to stop and point out that these proposed numbers have not been fine tuned to computer accuracy and are only conceptual in nature. For example: if the holding company purchases a piece of real estate currently appraised for \$100,000 and expects to hold that property for ten years and sell it for \$100,000, then, at a 7% desired annual return on invested dollars the holding company should pay \$50,000 (actual \$49,759.63) less anticipated holding costs. Of course, if the property can be sold earlier at the same price, then the yield to the investors increases accordingly. Also, before I receive a rash of "boy is that a good deal for someone" then let me also point out that "someone" is anyone who is willing to put their dollars down and take the corresponding risk for a possible profit - someday. Also, this concept addresses the supply side only and I leave the demand side solutions to other experts.

All plans must have some game rules, so let me throw some of these on the consideration table.

1. The Commission of Banking and Securities contract an external consulting firm to create the financing and accounting functions.
2. The Commission of Banking and Securities contract an external annual audit (published).
3. Purchases to be negotiated at a best buy price with significant discounts for bulk buys. No seller would be forced to sell and may certainly elect to keep their inventory (FDIC included).
4. Establish a moratorium on issue of Class B stock (real estate exchange) - say three years.
5. Establish guidelines (not limitations) on liquidation of assets, at less than face or appraised values, - example:
 

|        |                    |
|--------|--------------------|
| year 1 | 0%                 |
| 2      | 5%                 |
| 3      | 10%                |
| 4      | 15%                |
| 5      | 20%                |
| 6 - 10 | as market dictates |
6. Do not purchase loans or mortgages. These investments should be owned and operated from the private sector only.
7. Defer profits until liquidation.

8. The Governor appoints the chairman of the board and the legislature confirms the board members who will come from the following investment areas:
- |                    |                        |
|--------------------|------------------------|
| AHFC               | Department of Commerce |
| AIDA               | Appraiser              |
| Real Estate Broker | Banker                 |
| Public at large    |                        |
9. The president and CEO plus all other employees to be private sector type hires with salary commensurate with the limited employment period, complexity, trust responsibilities and lack of retirement opportunities.
10. Earnings are not to be reinvested in anything other than a sinking trust fund and liquidation of equity position.
11. Asset liquidation to be accomplished through the real estate industry on a open listing type basis similar to HUD's current operation - selling commission only.
12. Place all acquired assets on the market at face or appraised value to allow the market to catch up with the price.
13. Establish a watch dog procedure to monitor appraisals, building permits, foreclosures, bankruptcies, etc. so that assets can be sold in the most favorable market conditions and at the earliest opportunity.
14. Do not close on property that is occupied. The selling agency must relocate all tenants, hopefully to other properties they own, prior to closing. The Bank and Trust should function as a holding company, not a competitor for property management.
15. Pursue unique markets such as sale of condos to the University of Alaska for use as dorms and the bulk sale of condos to Pacific Rim countries (at discount prices) for use as cultural exchange homes.
16. Yes, it might be necessary to obtain additional funds through debt financing. If so, then consideration should be given to bonds (not convertible) that could be raised on the strengths of the corporation alone. If that is not possible, then consider loans from either the public and/or private sectors. However, lest we forget, the creditor is now the first out and the equity owners take second position in case of forced liquidation.



## EXTERNAL COMMITMENTS

No entity can operate in a vacuum or in isolation from its surrounding economic influences. Therefore, it is important that in developing this holding bank we also obtain written commitments to:

1. Demolish marginal and unsafe properties whenever possible.
2. Place a moratorium on any rezoning that results in a higher density.
3. Place a moratorium on expansion of utilities, at least until there is a better utilization of highest and best use of our present land.
4. Mothball or export all excess mobile homes.

## CONCLUSION

I doubt that my plan, which is really a conglomerate of my ideas and other proposals, will slay the economic dragon (wounded - maybe). However, after a stop, look and listen posture for the last three years, I am now convinced that the time is right to bring together some of the best talent in the state who will, in turn, analyze the problem, evaluate alternative courses of action, and develop a proposal that WILL WORK!

If there is a problem in our economy, and that problem is an excess in the supply of real estate and we have decided that something must be done - then let's do it right!

1. a combined effort from the private and public sectors.
2. put our money down and accept the risk and profit.
3. spread the risk.
4. and most importantly do not debt finance with public funds. Let's treat this problem as an investment opportunity not a bail out program.

P.S. If we are going to moth ball real estate, let's start with the PAC! It's a little silly to walk around town in a mink coat and no shoes.

**MUNICIPALITY OF ANCHORAGE  
ECONOMIC RECOVERY PROGRAM**

**Submitted  
by Mayor Tom Fink**

**Approved by the Assembly  
March 1, 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 of approximately 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 a budget problem of approximately \$20 million, exclusive of utility revenue shortfalls. 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.

As documented in the Fischer Report, the situation is critical. The length of this recession is uncertain. Although employment is still falling, the rate 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: Stable property values are 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 three 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 economic issues which will be dealt with throughout the 1988 Legislative Session. Phase 3 includes those projects and proposals with longer lead times or which require additional analysis and evaluation. In this third 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 phases.

Section V describes in more detail the approach and recommendations for capital projects. Also shown are 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 distributed according to existing Municipal Assistance formula
  - 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 (Jobs bill).
  - Purposes:
    - Employment
    - Repair and rehabilitation (lower O&M costs)
    - Economic Development (infrastructure)
  - Advantages:
    - Impact employment in hard hit sector
    - Multiplier impacts help support sector
- \* Real Estate Market Participation
  - Purposes:
    - Re-establish confidence in the economy
    - Speed readjustment
    - Reduce loss of employment and income
  - Advantages:
    - Potential for long run return on investments initially made in distressed markets

##### Commercial Real Estate

Consider Alternative Methods of Investment in or Removal of Commercial Real Estate from Market

AIDEA and other agencies assist borrowers through loan modifications and refinancing.

#### **Residential Real Estate**

AHFC - administrative action/workout programs.

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

ASBA/HUD remove substandard housing from market, utilize foreclosed properties to provide housing for needy individuals.

State actions to discourage auctions and other forms of dumping of real estate.

Encourage agencies to facilitate trades in condominium market.

Encourage removal of mobile homes from market.

#### **\* Other**

Bradley Lake - fast track APUC review exemption. Move forward with construction.

Court Building financing - fast track project.

#### **B. Phase 2 - 1988 Legislative Session, Economic Priorities**

##### **\* Operating Budget Issues**

##### **- School Foundation Program**

Support Forward Funding

##### **- Municipal Assistance, State Revenue Sharing, School Debt Reimbursement**

Increase Funding levels

Change payment schedule for Municipal Assistance

Support Forward Funding

##### **- Social Services Block Grant Funding**

##### **- Support Police/School Liaison Program**

##### **- Maintain share of State employee position count in Anchorage**

- Encourage state funding for employment of young and adult Alaskans to carry out conservation and development projects.

\* Capital Improvements

- Assembly Resolution #88-39 requesting the Anchorage legislative delegation to follow Municipal priorities as approved by the Assembly and Administration
- High Priority 1988 Construction
  - Group I - Assembly Priorities \$61,836,900
  - Group II - Other Priorities \$41,802,900
  - High Priority 1989 Construction \$38,890,000
  - Anchorage School District Priorities
  - Railbelt Energy Fund - Municipality of Anchorage's support for maintaining the Railbelt Energy Fund for railbelt communities' energy projects
  - Alaska Department of Environmental Conservation sewer and water community grant program

C. Phase 3 - Longer Term Economic Recovery Program

Specific proposals have not been finalized for all elements in this phase. Some would require State action while others are primarily local initiatives. 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



- \* Legislation permitting use of tax incentives for business development
- \* Streamlining of local permitting requirements
- \* Local purchase/import substitution

## V. Proposed Capital Projects

The attached 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. The Assembly has passed Resolution No. 88-39 requesting the Anchorage Legislative delegation to follow Municipal priorities as approved by the Assembly and Administration.

- 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.
- C. Anchorage School District Capital Projects

The Anchorage School District has compiled a separate listing of capital projects which was submitted to the Legislature early in this session. Many of these projects are necessary for the life/safety of Anchorage students and other projects address deferred maintenance needs or are considered essential to the instructional program by the School Board.

The Anchorage Assembly has responsibility to establish funding for community-wide capital projects. The Assembly has discussed and approved the capital projects included in the Anchorage Economic Recovery Program as priorities for Anchorage; however, it has not prioritized the projects proposed by the School District.

D. Railbelt Energy Fund

The Railbelt Energy Fund was established to address electrical needs of communities from the Kenai Peninsula Borough to Fairbanks. There have been several proposals this session to reallocate these funds for other purposes. The Alaska Power Authority, through funds authorized by the 1987 Legislature, has undertaken a major effort to examine the electrical/power requirements of Railbelt communities and examine a series of proposals, including expansion and upgrade of the existing intertie distribution system. Contracts for this analysis are underway with final conclusions and recommendations due in March 1989. An interim report will be distributed to the 1989 Legislature.

If no other sources of state funds are made available for economic recovery then the Railbelt Energy Fund should be used for that purpose.

E. Alaska Department of Environmental Conservation Community Sewer and Water Grants

The State of Alaska has for the past several years supported a level of ADEC grants (50% State, 50% local) to Anchorage for basic sewer and water improvements throughout the Anchorage area. The fiscal year 1989 budget currently under Legislative consideration contains no continued funding for this vital program in Anchorage. The funding request to the State for the 1988 construction year includes the Eagle River Wastewater Treatment Facility upgrade, water improvement districts, transmission mains, distribution reservoirs and utility improvements related to road construction. The funding request for the Eagle River Treatment facility will provide partial funding of the local share requirement for an EPA grant of approximately \$4 million. The Anchorage request to ADEC for the State's 50% grant share is summarized as follows:

|                                   |                    |
|-----------------------------------|--------------------|
| Anticipated Improvement Districts | \$1,700,000        |
| ADOTPF Highway Related            | 132,000            |
| Miscellaneous Transmission Mains  | 732,000            |
| Distribution Reservoirs           | 177,000            |
| Accelerated Sewer Program         | 177,000            |
| Eagle River WWTF Upgrade          | 3,500,000          |
| Total                             | <u>\$6,418,000</u> |

APPROVED

Date: 3-1-88

Submitted by: Chairman of the Assembly at  
the Request of the Mayor  
Prepared by: Office of Management and  
Budget  
For Reading: March 1, 1988

ANCHORAGE, ALASKA  
AR NO. 88-39

A RESOLUTION OF THE ANCHORAGE ASSEMBLY REQUESTING THE ANCHORAGE LEGISLATIVE DELEGATION FOLLOW THE ASSEMBLY/ADMINISTRATION-APPROVED MUNICIPAL CAPITAL PROJECTS LIST WHEN APPROPRIATING CAPITAL FUNDING FOR ANCHORAGE PROJECTS.

WHEREAS, State funding for capital projects has declined significantly in the past several years; and

WHEREAS, the Municipality of Anchorage has many unmet capital needs; and

WHEREAS, the Municipality of Anchorage has a capital improvement process which includes the Community, Administration and Assembly through which capital projects are prioritized on a community-wide basis; and

WHEREAS, the Capital Projects Section of the Anchorage Economic Program reflected the local priorities reviewed and approved by the Assembly and Administration.

NOW, THEREFORE, the Anchorage Assembly resolves:

Section 1. To strongly recommend that the Anchorage Legislative Delegation seek funding for those Municipal capital projects on the Assembly-approved priority list.

Section 2. If a Legislative priority project including Anchorage School District projects is not on the Municipality's approved list, adequate opportunity should be allowed the Municipality to evaluate the project and make a joint Assembly/Administration recommendation back to the Legislature.

PASSED AND APPROVED by the Anchorage Assembly this \_\_\_\_\_ day of \_\_\_\_\_, 1988.

\_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Municipal Clerk



# ANCHORAGE CAPITAL PROJECTS

| <u>Name of Project</u>                                                     | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                |
|----------------------------------------------------------------------------|---------------------|-------------------------------------------------------------------------------------------------------------|
| <b>HIGH PRIORITY - 1988 CONSTRUCTION</b>                                   |                     |                                                                                                             |
| <b><u>GROUP I - ASSEMBLY PRIORITIES</u></b>                                |                     |                                                                                                             |
| Lake Otis Parkway, III<br>(Tudor to Dowling)                               | \$ 2,500.0          | Electrical undergrounding, sewer/water,<br>bike path & landscaping                                          |
| Klatt Road<br>(Timberline to Southport)                                    | \$ 3,400.0          | Paving, curb & gutter, sidewalks, bike<br>path, lighting & landscaping                                      |
| Spenard Road, II<br>(International to Turnagain)<br>(HB 512 - \$3,500,000) | \$11,400.0          | ROW acquisition \$4.2M<br>Roadway construction \$7.2M                                                       |
| Hiland Road - Phase II                                                     | \$ 500.0            | Road improvement and slope stabilization<br>- needs design                                                  |
| Santa Maria Drive                                                          | \$ 850.0            | Upgrade gravel road - design is being<br>negotiated                                                         |
| Hiland Bridge Pedestrian<br>Walkway                                        | \$ 450.0            | State DOT project. Widen pathway from<br>8' to 12' on future bridge. Under<br>design for 1988 construction. |
| 36th Avenue<br>(Arctic to Spenard)                                         | \$ 4,800.0          | ROW acquisition funded; roadway and<br>landscaping construction                                             |
| East 6th Ave. (Muldoon-Cherry)                                             | \$ 2,000.0          | Road Construction - needs design                                                                            |
| Lake Otis Parkway, IV<br>(66th to Abbott)                                  | \$15,800.0          | ROW acquisition \$2.1M; roadway and<br>landscaping construction \$13.7M                                     |
| Arctic Blvd.<br>(Raspberry to Dimond)                                      | \$ 3,500.0          | Utility relocations and construction<br>\$3.5M                                                              |
| Huffman Rd.<br>(New Seward to Bragaw)<br>(HB 512 - \$3,002,200)            | \$ 3,500.0          | Bid package ready by July, State DOT<br>project                                                             |
| Baranoff                                                                   | \$ 1,620.0          | Upgrade gravel road - design is being<br>negotiated                                                         |
| Klondike                                                                   | \$ 270.0            | Upgrade gravel road - design is being<br>negotiated                                                         |
| Eagle River Roads<br>(HB 512 - \$650,000<br>Eklutna to Eagle River)        | \$ 900.0            | Strip paving. Design negotiation<br>underway.                                                               |
| Lake Otis (O'Malley-Huffman)                                               | \$ 3,100.0          | ROW acquisition \$.3M; design \$.4M; and<br>construction \$2.4M.                                            |

| <u>Name of Project</u>                                                           | <u>1988 (\$000)</u>   | <u>Notes</u>                                                                                                                                             |
|----------------------------------------------------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>GROUP I - ASSEMBLY PRIORITIES (continued)</b>                                 |                       |                                                                                                                                                          |
| ARDSA Rehab Projects<br>(HB 512 - \$1,115,000)                                   | \$ 4,000.0            | Implementation of 5-yr. road improvement plan - needs design                                                                                             |
| Venus Way \$200,000                                                              | Collins Way \$17,000  | Turpin \$150,000                                                                                                                                         |
| Oceanview \$200,000                                                              | Imlach \$37,000       | First Avenue \$160,000                                                                                                                                   |
| Admiralty Bay \$74,000                                                           | Tall Spruce \$150,000 |                                                                                                                                                          |
| Dare Avenue \$17,000                                                             | E. 20th \$110,000     |                                                                                                                                                          |
| Hillside Drainage Plan<br>Phase I Study                                          | \$ 300.0              | Complete assessment of drainage problems on Hillside identifying specific capital projects                                                               |
| Hollywood Vista Apartments                                                       | \$ 2,146.9            | Provide for the asbestos removal (\$646,875) and demolition (\$1,500,000) of the apartment building recently transferred from HUD to Municipal ownership |
| Willow Park Apartments                                                           | \$ 2,200.0            | Demolition and restoration of apartment building site                                                                                                    |
| W. Northern Lights Blvd. I<br>(Forest Park to Wisconsin)                         | (\$ 1,400.0)          | Landscaping complete; request transfer of residual funds to Spenard Road II                                                                              |
| Subtotal                                                                         | \$61,836.9            |                                                                                                                                                          |
| <b>GROUP II - OTHER PRIORITIES</b>                                               |                       |                                                                                                                                                          |
| Windemere Phase I<br>Reconstruction                                              | \$ 697.0              | Paving, curbs, drainage. Design complete, construction contract                                                                                          |
| Heather Meadows Phase III<br>(HB 512 \$400,000<br>Heather Meadows and Windemere) | \$ 724.0              | Subdivision reconstruction roads and drainage (design 50% complete)                                                                                      |
| Central Business District<br>Rehabilitation                                      | \$ 600.0              | Sidewalk, curbs, drainage (design complete)                                                                                                              |
| Downtown Sidewalk, Lighting<br>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.                                                                    |

| <u>Name of Project</u>                         | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                                                                                                                                       |
|------------------------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u> |                     |                                                                                                                                                                                                                                    |
| Emerald Hills                                  | \$ 1,357.0          | Subdivision reconstruction roads and drainage. Under design for summer construction.                                                                                                                                               |
| 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                                                                                                                                         |
| 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. |



| <u>Name of Project</u>                                                                 | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                                                                                                   |
|----------------------------------------------------------------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u>                                         |                     |                                                                                                                                                                                                |
| Merrill Field Runway<br>Construction Grant (matching<br>grant)<br>(HB 512 - \$147,000) | \$ 147.0            | FAA Federal grant to upgrade the Merrill<br>Field north/south runway \$2.3M.<br>Grant is being processed, design to be<br>Completed in May, construction August 1,<br>completion mid-November. |
| Merrill Field Passenger<br>Terminal                                                    | \$ 4,000.0          | Airport terminal facility servicing<br>passenger and freight traffic through<br>Merrill Field - design complete.                                                                               |
| <u>Public Works - Deferred<br/>Municipal Building Maintenance</u>                      |                     |                                                                                                                                                                                                |
| Historical Fine Arts Museum                                                            | \$ 250.0            | Repair/replace damaged wall coverings in<br>art galleries.                                                                                                                                     |
| Tudor Road Building                                                                    | \$ 150.0            | Heating system replacement (design<br>complete)                                                                                                                                                |
| Woodland Park School                                                                   | \$ 78.4             | Heating system repairs - 3-4 weeks<br>designs                                                                                                                                                  |
| Municipal Buildings Roof<br>Repairs                                                    | \$ 39.7             | Roof maintenance and repair on 9<br>buildings                                                                                                                                                  |
| Paint Municipal Buildings<br>(HB 512 - \$5,000 Goose Lake)                             | \$ 110.0            | Small painting projects on 14 building<br>interiors and exteriors                                                                                                                              |
| Fleet Service Building                                                                 | \$ 125.0            | Fire sprinkler system - 4-5 weeks design<br>required                                                                                                                                           |
| Transit Storage Building                                                               | \$ 57.5             | Repair doors and floor                                                                                                                                                                         |
| Hill Building                                                                          | \$ 12.0             | Upgrade air conditioner in 5th floor<br>computer room                                                                                                                                          |
| Gateway Park (Interna-<br>tional Airport Road)                                         | \$ 125.0            | Replace underground sprinkler system for<br>landscaping - 2 weeks design required                                                                                                              |
| West Chester Lagoon Park                                                               | \$ 35.0             | Replace underground sprinkler system for<br>landscaping - 2 weeks design required                                                                                                              |
| Libraries and Maintenance<br>Shop<br>(HB 512 - \$6,500 Mt. View)                       | \$ 37.0             | Construct and repair interior walls and<br>carpet                                                                                                                                              |

| Name of Project                                         | 1988 (\$000) | Notes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u>          |              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Asbestos Abatement<br>(HB 512 - \$54,410<br>Goose Lake) | \$ 1,300.3   | <ul style="list-style-type: none"> <li>- Fire stations \$173,300 (design Complete)</li> <li>- Old City Hall \$250,500 (designs - 3-4 weeks required)</li> <li>- Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center \$326,400 (design - 2-3 weeks required)</li> <li>- Public Health Facility \$363,600 (design 2-3 weeks required)</li> <li>- Other municipal buildings \$186,500 (design - 2-3 weeks required)</li> </ul> |

Parks and Recreation - Meet additional criteria of life/safety improvements

|                                                    |            |                                                                           |
|----------------------------------------------------|------------|---------------------------------------------------------------------------|
| Delong Lake Park                                   | \$ 50.0    | Replace public use dock                                                   |
| Nunaka Valley Park<br>(HB 512 - \$25,000)          | \$ 25.0    | Replace broken playground equipment                                       |
| Jewel Lake Park<br>(HB 512 - \$107,000)            | \$ 130.0   | Playground and equipment repair, dock Replacement                         |
| Goose Lake Park<br>(HB 512 - \$80,000)             | \$ 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                                                   |
| University Lake<br>(HB 512 - \$80,000)             | \$ 70.0    | Bike trail bridge replacement                                             |
| Valley Street                                      | \$ 85.0    | Lake shore steep bank improvements                                        |
| Taku Lake<br>(HB 512 - \$125,000)                  | \$ 225.0   | Lake shore steep bank improvements and dock construction                  |
| Chester Creek Trail System<br>(HB 512 - \$400,000) | \$ 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) |

| <u>Name of Project</u>                             | <u>1988 (\$000)</u> | <u>Notes</u>                                               |
|----------------------------------------------------|---------------------|------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u>     |                     |                                                            |
| <u>Parks and Recreation Improvements</u>           |                     |                                                            |
| Willow Housing Park                                | \$ 45.0             | Park repair and rehabilitation                             |
| Browns Pt. Park<br>(HB 512 - \$40,000)             | \$ 40.0             | Park repair and rehabilitation                             |
| Delaney Park                                       | \$ 260.0            | Top soil and reseed                                        |
| Duldida Park<br>(HB 512 - \$85,000)                | \$ 85.0             | Park repair and rehabilitation                             |
| Kanchee Park<br>(HB 512 - \$85,000)                | \$ 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<br>(HB 512 - \$20,400)                | \$ 30.0             | Repair and rehabilitation                                  |
| Campbell Park<br>(HB 512 - \$65,000)               | \$ 65.0             | Shoreline and park repair and rehabilitation               |
| "C" Street Community Garden<br>(HB 512 - \$20,000) | \$ 20.0             | Soil and parking improvements                              |
| Cope Street Park<br>(HB 512 - \$35,000)            | \$ 35.0             | Repair and rehabilitation                                  |
| Wilson St. Park<br>(HB 512 - \$35,000)             | \$ 35.0             | Repair and rehabilitation                                  |
| Pena Field                                         | \$ 45.0             | Parking and playfield improvements                         |
| Davis Park<br>(HB 512 - \$195,000)                 | \$ 220.0            | Basketball court construction and playfield rehabilitation |
| Pop Carr Park                                      | \$ 180.0            | Tennis court, walkway and park rehabilitation              |
| Storck Park                                        | \$ 200.0            | Playfield, playground and park Improvements                |



| <u>Name of Project</u>                                              | <u>1988 (\$000)</u>                 | <u>Notes</u>                                                                                           |
|---------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------|
| 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<br>(HB 512 - \$10,000)                          | \$ 5.0                              | New park improvements                                                                                  |
| Town Square<br>(HB 512 - \$15,000)                                  | \$ 15.0                             | Park improvements -                                                                                    |
| Schroeder Park                                                      | \$ 35.0                             | Planning and construction document preparation                                                         |
| Eagle River Tennis Court                                            | \$ 160.0                            | Construction                                                                                           |
| Chief Alex Park<br>(HB 512 - \$15,000)                              | \$ 15.0                             | Park improvements                                                                                      |
| Mirror Lake<br>(HB 512 - \$55,000)                                  | \$ 55.0                             | Drainage and parking improvements                                                                      |
| Girdwood<br>(HB 512 - \$200,000)                                    | \$ 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<br>backs which are revenue<br>generating | \$ 400.0<br>300.0<br>500.0<br>300.0 | Large Rehearsal Hall<br>Small Rehearsal Hall<br>Orchestra Pit Lifts<br>Concession Equipment            |
| Huffman School Pathway Lighting                                     | \$ 50.0                             | Lighting of two pathways providing access to school through Huffman Park                               |
| O'Malley School Pathway                                             | \$ 90.0                             | Provide access to school along Rockridge Road                                                          |
| Girdwood EMS Vehicle                                                | \$ 75.0                             | Replacement of a 1980 Medic Unit serving the Girdwood area                                             |

| <u>Name of Project</u>                           | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                            |
|--------------------------------------------------|---------------------|---------------------------------------------------------------------------------------------------------|
| Girdwood Pedestrian Trail                        | \$ 325.0            | Design and construction of a walkway from the resort along Alyeska Highway to the Old Girdwood townsite |
| Subtotal                                         | <u>\$41,802.9</u>   |                                                                                                         |
| HIGH PRIORITY - 1988<br>CONSTRUCTION TOTAL       | \$103,639.8         |                                                                                                         |
| <b>HIGH PRIORITY-1989 CONSTRUCTION</b>           |                     |                                                                                                         |
| Edwards (DeBarr to Ptarmigan School)             | \$ 500.0            | Road Construction - needs design                                                                        |
| Sullins/Chugach Park Road                        | \$ 390.0            | Upgrade gravel road - design is being negotiated                                                        |
| Spenard Road, III<br>(Turnagain to McRae)        | \$ 7,100.0          | Roadway and landscaping construction \$7.1M                                                             |
| Dimond Blvd.<br>(New Seward to 88th)             | \$ 4,700.0          | Design \$.6M; ROW acquisition \$4.1M; roadway and landscaping construction                              |
| West Northern Lights, II<br>(Wisconsin to Aero)  | \$ 5,600.0          | Design \$.5M; roadway and landscaping construction \$5.1M                                               |
| Hillside Drainage Plan<br>Phase I Implementation | \$ 5,000.0          | Implementation of drainage improvements - needs design                                                  |
| Birch Road, Huffman to<br>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                                                                                       |

| <u>Name of Project</u>          | <u>1988 (\$000)</u> | <u>Notes</u>                                  |
|---------------------------------|---------------------|-----------------------------------------------|
| 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 | <u>\$ 38,890.0</u>  |                                               |
| TOTAL 1988/1989 CONSTRUCTION    | <u>\$142,529.8</u>  |                                               |



SECOND *file*  
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 is uncertain. Although employment is still falling, the rate 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                                                                                                                 |
|-------------------------------------------------------|--------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>HIGH PRIORITY - 1988 CONSTRUCTION</b>              |              |                                                                                                                       |
| <b>GROUP I - ASSEMBLY PRIORITIES</b>                  |              |                                                                                                                       |
| Lake Otis Parkway, III<br>(Tudor to Dowling)          | \$ 2,500.0   | Electrical undergrounding, sewer/water, bike path & landscaping                                                       |
| Klatt Road<br>(Timberline to Southport)               | \$ 3,400.0   | Paving, curb & gutter, sidewalks, bike path, lighting & landscaping                                                   |
| Spenard Road, II<br>(International to Turnagain)      | \$11,400.0   | ROW acquisition \$4.2M<br>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<br>(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<br>(66th to Abbott)             | \$15,800.0   | ROW acquisition \$2.1M; roadway and landscaping construction \$13.7M                                                  |
| Arctic Blvd.<br>(Raspberry to Dimond)                 | \$ 3,500.0   | Utility relocations and construction \$3.5M                                                                           |
| Huffman Rd.<br>(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                                                          |

| <u>Name of Project</u>                                    | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                                                                                |
|-----------------------------------------------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP I - ASSEMBLY PRIORITIES (continued)</u>          |                     |                                                                                                                                                                             |
| Hillside Drainage Plan<br>Phase I Study                   | \$ 300.0            | Complete assessment of drainage problems on Hillside identifying specific capital projects                                                                                  |
| W. Northern Lights Blvd. I<br>(Forest Park to Wisconsin)  | (\$ 1,400.0)        | Landscaping complete; request transfer of residual funds to Spenard Road II                                                                                                 |
| Subtotal                                                  | <u>\$57,490.0</u>   |                                                                                                                                                                             |
| <u>GROUP II - OTHER PRIORITIES</u>                        |                     |                                                                                                                                                                             |
| Windemere Phase I<br>Reconstruction                       | \$ 697.0            | Paving, curbs, drainage. Design complete, construction contract awarded                                                                                                     |
| Central Business District<br>Rehabilitation               | \$ 600.0            | Sidewalk, curbs, drainage (design complete)                                                                                                                                 |
| Downtown Sidewalk, Lighting<br>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<br>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                                                                                  |



| <u>Name of Project</u>                                        | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                                                                                                                                       |
|---------------------------------------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u>                |                     |                                                                                                                                                                                                                                    |
| 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                                                                                                                                       |
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| 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.                                                                                                                         |
| <u>Public Works - Deferred Municipal Building Maintenance</u> |                     |                                                                                                                                                                                                                                    |
| 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                                                                                                                                                                                         |

| <u>Name of Project</u>                         | <u>1988 (\$000)</u> | <u>Notes</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u> |                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 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          | <ul style="list-style-type: none"> <li>- Fire stations \$173,300 (design complete)</li> <li>- Old City Hall \$250,500 (designs - 3-4 weeks required)</li> <li>- Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center \$326,400 (design - 2-3 weeks required)</li> <li>- Public Health Facility \$363,600 (design 2-3 weeks required)</li> <li>- Other municipal buildings \$186,500 (design - 2-3 weeks required)</li> </ul> |

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                           |

| <u>Name of Project</u>                         | <u>1988 (\$000)</u> | <u>Notes</u>                                                              |
|------------------------------------------------|---------------------|---------------------------------------------------------------------------|
| <u>GROUP II - OTHER PRIORITIES (Continued)</u> |                     |                                                                           |
| 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              |



| <u>Name of Project</u>                                        | <u>1988 (\$000)</u>                 | <u>Notes</u>                                                                                           |
|---------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>GROUP II - OTHER PRIORITIES (Continued)</b>                |                                     |                                                                                                        |
| 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<br>300.0<br>500.0<br>300.0 | Large Rehearsal Hall<br>Small Rehearsal Hall<br>Orchestra Pit Lifts<br>Concession Equipment            |
| Subtotal                                                      | <u>\$41,262.9</u>                   |                                                                                                        |
| HIGH PRIORITY - 1988 CONSTRUCTION TOTAL                       | \$98,752.9                          |                                                                                                        |
| <b>HIGH PRIORITY-1989 CONSTRUCTION</b>                        |                                     |                                                                                                        |
| Edwards (DeBarr to Ptarmigan School)                          | \$ 500.0                            | Road Construction - needs design                                                                       |
| Sullins/Chugach Park Road                                     | \$ 390.0                            | Upgrade gravel road - design is being negotiated                                                       |

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

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**ANCHORAGE CHAMBER OF COMMERCE  
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 the 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 circumstances. 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.

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**ANCHORAGE CHAMBER OF COMMERCE**



- \* 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, low income 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 local businesses are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).



# It's time to take economic action

Picture this scene: a very ill patient is laying in a hospital bed. His original case of influenza is nearly gone, but it was so severe that it left him susceptible to pneumonia, which is now threatening his recovery. His vital signs are deteriorating and his prognosis is uncertain.

But oddly, the doctors can't decide what to do! They're huddled in another room, locked in heated debate. Should they do anything, or should they just let nature take its course? If they do "do something," what should it be? Who should do it? Who should get the credit if it works? Who might get blamed if it fails?

Does this scene sound preposterous? It is, but it could happen right here in Alaska. In case you haven't already guessed, the pneumonia patient is the Alaska economy, and the doctors are its elected officials, business leaders, journalists and economists.

As the debate drags on, Alaska is entering its third year of recession. But in recent months, the relevance of the debate has increased. We now have more of an opportunity to stop the deterioration than we had before. The reason is that the nature of our problem has changed.

Two years ago, a large drop in oil prices left a hole in our economy that couldn't be filled. Period. But after losing nearly 10 percent of our jobs and people since then, we have completed most of the necessary downsizing. Our new problem is controlling the financial aftermath of such a sudden and severe adjustment.

That, however, is doable. Financial damage control is much more realistic than trying to immediately replace billions of dollars in lost oil revenue. Yet, the payoff could be enormous.

Indeed, one should not underestimate the damage further financial deterioration could cause and the corresponding benefits of preventing it.

There was nothing about the 1929 stock market crash and ensuing recession that, in themselves, forced the U.S. into a decade-long depression. Rather, it was excessive adherence by policymakers to the "let nature take its course" doctrine during the following five years. That moral doctrine is what led Congress and the central bank to stand idly by while the financial aftermath snow-balled and wiped out nearly



By Scott Hawkins

one-third of the nation's banks, crushed its real estate and business asset values and perpetuated the economic downturn.

Sound familiar? Those that see no parallel between the U.S. in the early 1930s and Alaska in the late 1980s should look again. Four of Alaska's 14 banks have failed in the past year, and they were four of its largest seven. Two are in FDIC receivership and two more were merged with each other and given reprieve through an infusion of capital. Business and real estate assets have plunged in value. Longtime, well-established Alaskans have gone bankrupt.

The potential for yet another cycle of foreclosures, bankruptcies, liquidations, falling asset values, failing financial institutions, job losses, etc., is very real. The FDIC has yet to dispose of the loans and real estate that it is already holding in receivership. Several other banks and thrifts are considered vulnerable, and the newly merged bank has yet to come to grips with the massive portfolio of real estate and troubled loans.

The manner in which these troubled assets are managed will be crucial. If the various managers put short-term cash recovery as their highest priority, they will deal with debtors rigidly and market the foreclosed properties and business assets aggressively.

Obviously, this would further depress asset values and prolong Alaska's financial deterioration. Yet, how can individual managers be expected not to strive for short-term cash recovery, especially in today's business environment?

Several ideas have surfaced in recent weeks. Permanent Fund director Dave Rose has suggested that the state establish a "bridge bank" that would swap stock for real estate with the FDIC and other financial institutions, and then hold those properties off the market or manage them with the intention of stabilizing the market.

When the properties are liquidated gradually over period of years, the proceeds — minus expenses — would be returned to the stockholders.

Sealaska and the state Commissioner of Commerce and Economic Development, Tony Smith, are investigating a real estate investment trust (REIT) that would buy up properties, hold them for a period of time, and sell them gradually. It would be funded by native corporations, wealthy Alaskans, not-so-wealthy Alaskans and perhaps even the state.

The organization I represent, the Anchorage Economic Development Corporation (AEDC), has proposed something very similar to Dave Rose's "bridge bank." We would establish a statewide non-profit, non-governmental affiliate to purchase the FDIC's portfolio of loans and properties and manage both with a long-term view toward economic stabilization. Our purchase would be funded by the proceeds of a long-term bond issuance that, depending on how it is structured, may require a "moral backing" or capitalization loan from the state.

Once the FDIC purchase is complete, our concept can be expanded so that some of the troubled assets of other banks and thrifts can be purchased as well. Any surplus revenues that this non-profit corporation realized (in excess of expenses and debt service) would be returned to state and local governments for distribution as economic development block grants.

All of the above proposals are compatible and mutually reinforcing and all seek to stop Alaska's financial deterioration by marketing troubled assets less aggressively. They would stop the deterioration of real estate and business asset values by easing the aggressive competition among sellers. The economy would "hit bottom" sooner, values would begin to recover sooner, and virtually everyone would benefit. A public purpose would be served.

But this is not an issue that can wait a year. If nothing significant is done soon, nature will take its course. And we may or may not like the results.

Economist Scott Hawkins is president of the Anchorage Economic Development Corporation.

Legislature Must Intervene

# Agency set up to sell assets seeks bailout

Washington Post

**W**ashington — A government organization created to raise cash by selling property from failed savings and loan associations instead is losing \$1 million a month and has asked for a \$10 million infusion to stay alive, according to federal regulatory sources.

The Federal Asset Disposition Association (FADA) requested the money three months ago to make up for a \$10 million operating shortfall in 1987, the sources said. It wanted to cover the shortfall to avoid embarrassment at a time when it is being investigated by two congressional committees, the Justice Department and the Federal Home Loan Bank Board on allegations of mismanagement and conflicts of interest.

Disclosure of the \$10 million operating loss in 1987 is likely to intensify a debate in Congress over whether FADA ought to be scrapped or sustained to fulfill its intended mission of selling repossessed property. The money the bank board supplies to FADA comes from the beleaguered insurance fund that also must be used to guarantee deposits at S&Ls.

FADA recently defended the \$10 million request, insisting the money represents fees that the Federal Home Loan Bank Board, the federal agency that regulates S&Ls, owes it for managing government-owned property.

The bank board said the \$10 million request was in addition to \$18.9 million in fees the bank board paid FADA in the first 11 months of 1987.

But bank board sources said that some board officials dispute the method FADA used to calculate the \$10 million charge. The bank board said it is reviewing the request.

In addition, Rep. James Florio, D-N.J., issued a statement questioning FADA's request for funds and asking the bank board for a full accounting of how FADA spends its money and charges for its services.

"I am concerned that FADA is asking for substantial additional federal funds, while its performance is subject to serious question," Florio said in a letter to bank board chairman Danny Wall.

The bank board created FADA in the fall of 1985 with \$25 million in seed money, half of which it has used. The other half is needed for collateral for a \$50 million line of credit with the government. The bank board expected the government-owned company to earn a profit within one year by helping it manage and sell the huge collection of condominiums, office buildings, loans and other assets inherited from failed S&Ls.

But more than two years later, FADA has not only failed to achieve many sales but is consuming so much cash that several members of Congress and the S&L industry in Texas say the company should be folded.

Several real-estate developers and congressmen



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lp

happy



...is getting all of  
in said. "If you clear a  
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there.

light bulbs. You create

has been to make sure  
mestic problems don't  
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in... hough my yard. I  
ne, so I am careful not  
body else.

the roots from one of

ter service compan-  
rates and addition-

...s, 241-6070, \$49 for  
or each additional  
minutes.

8-5300, \$49.50 first  
o 100 feet in length  
each additional 15

...7, \$63 per hour for  
ditional labor hour pro

2, \$58.50 per hour for  
line, \$8 each

...\$159, \$47 per hour  
ur for inside line, \$47  
1 minute period for

...1605, \$37.50 per  
additional half-hour.

282-4700, \$40 per  
o per hour for 4-inch  
o pro rated based on

...8, 244-5678, \$40 per  
hour pro rated for

...5222, \$39 per first  
9 per first hour for  
time pro rated each 15

35-1116, by the job.

2500, \$39.50 per hour  
outside line, additional  
5 minutes.

gations. The Justice Department, for example, is  
investigating whether FADA broke any laws by hiring  
a private detective to investigate at least one real-  
estate developer who was publicly critical of FADA.

Bank board spokesman Karl Hoyle said the  
agency is reviewing FADA from top to bottom,  
including how the organization charges fees to the  
bank board, how it answers requests for information  
from the public and how it awards contracts.

He said the bank board has not decided whether to  
keep or kill FADA and that the decision will be based  
solely on whether FADA can be economically viable.

Last year Congress approved a \$10.8 billion bailout  
for the bank board fund that insures deposits at S&Ls.  
The fund ended 1986 more than \$6 billion in the red  
because of record S&L failures.

Florio, who is chairman of the House subcommit-  
tee on commerce, consumer protection and competi-  
tiveness, and Rep. Fernand St Germain, D-R.I.,  
chairman of the House Banking Committee, have  
been investigating FADA for months.

Recently St Germain said he might call for  
FADA's abolishment.

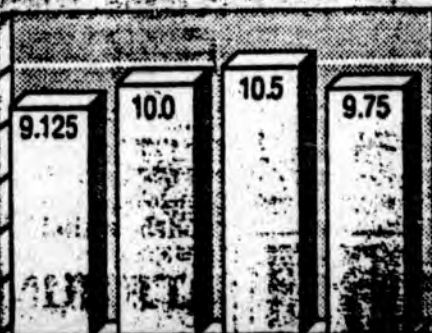
Congressional sources said that among the  
complaints that Florio's office is probing are reports  
that some FADA employees may have improperly  
used a 110-foot yacht in FADA's inventory.

According to the reports, FADA could have sold  
or rented the boat to generate revenue. Florio has  
asked FADA for information about the boat. FADA  
said none of its employees has used the boat for  
pleasure. It could not sell the boat because of a  
dispute over who held the craft's title and it decided  
in the meantime that tying up the boat was cheaper  
than paying the insurance and maintenance to rent it  
out, said a FADA spokeswoman who asked that her  
name not be used.

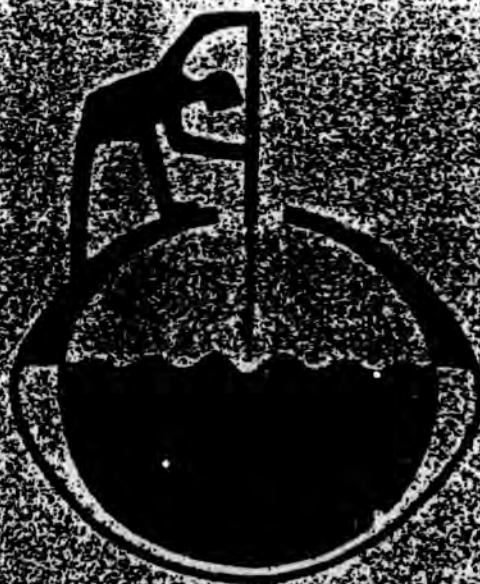
In addition to asking for \$10 million to reduce its  
operating deficit, FADA is reviewing its overhead  
expenses, including six-figure salaries that have  
gained national attention. FADA's president earns  
\$250,000 — more than the president of the United  
States — and its other top executives earn two to  
three times the salary of government employees who  
perform similar functions for agencies that regulate  
commercial banks.

## HOME LOANS

The interest rates on a local 30-year,  
fixed-rate loan in the past year compared  
with, six months ago, last month and  
today. Rates can change daily and loan  
programs vary.







**INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH  
UNIVERSITY OF ALASKA, ANCHORAGE**

**CAN STATE SPENDING SPEED  
ALASKA'S ECONOMIC RECOVERY?**

**A BRIEFING PAPER AND ECONOMIC PROSPECTUS**

Prepared by

Institute of Social and Economic Research  
University of Alaska Anchorage

Mr. Lee Gorsuch, Director  
Dr. Scott Goldsmith, Professor<sup>1</sup>

Prepared for

The Honorable Steve Cowper  
Governor  
State of Alaska

December 8, 1987

# UNIVERSITY OF ALASKA, ANCHORAGE

3211 Providence Drive  
Anchorage, Alaska 99508  
(907) 786-7710

INSTITUTE OF SOCIAL AND  
ECONOMIC RESEARCH

## MEMORANDUM

DATE: December 1, 1987

TO: Governor Steve Cowper

FROM: Lee Gorsuch<sup>h</sup> Director, ISER

SUBJECT: Can State Spending Speed Alaska's Economic Recovery?

Economic Overview and Background The Alaska economy recently entered its ninth consecutive quarter of an economic recession. Assuming relative stability in future oil prices, the recession is progressively dissipating and is likely to end over the course of the coming calendar year. ISER projects a modest economic recovery commencing around the last quarter of 1988 and extending into the mid-1990s. ISER's projected recovery is largely driven by growth in most of the state's basic industries, augmented by an increased military presence. It also assumes state General Fund spending stays in the two billion dollar range.

The question this economic projection raises is, could the state hasten the projected economic recovery or minimize the economic hardship imposed by this third, and hopefully final, successive year of a recession without jeopardizing future economic stability and growth. To answer this question, it is instructive to review how the state got into its current economic condition and to briefly profile it before attempting to devise strategies on how to improve it.

Over the span of the last decade, Alaska's employment base has increased by almost fifty percent, with the most rapid growth occurring between 1981 and 1984. This rapid growth in employment precipitated a corresponding growth in population which, in turn, triggered additional demands in the public sector for such services as education and schools and in the private sector for housing and a host of business services. This growth in both the public and private sector is almost exclusively attributable to the state's spending of its oil wealth.



# UNIVERSITY OF ALASKA, ANCHORAGE

December 1, 1987

Page 2

State General Fund spending more than tripled between 1980 and 1982. The sudden infusion of an additional two billion dollars into an economy which had a personal income base of only seven billion dollars could only have a dramatic accelerating impact on the state's economy. This infusion of state dollars continued through fiscal year 1985 and then began to decline at an accelerating rate as the state's oil revenues declined. Not surprisingly, the current economic recession coincided with and, in fact, was caused by the decline in state spending due to the corresponding decline in oil revenues. The subsiding of the recession is also largely a result in the subsiding of state spending cuts and, hopefully, some stability in oil prices and state oil revenues.

Policy Analysis. What this recent economic experience reveals is that state spending, unless it can be sustained, will have a destabilizing impact on the economy. It will accelerate the economy when spending increases and decelerate it when spending declines. I should hasten to add that dividends paid out from the Permanent Fund affect the state's economy similarly; i.e., increases accelerate the economy and decreases decelerate it. It is also important to note that the size of the dividends, proportionate to state spending, are playing an increasingly important role in the public sector's impacts on the overall economy. Thus, decisions regarding how state spending will impact the state economy must include consideration of the dividend payments.

If current levels of state (and local government) spending can be sustained (which to compute with some degree of reliability requires, among other assumptions, projections of future oil prices), a one-time state expenditure could arguably be justified if it were comparable to the modest economic gains expected by the state's basic industries in 1989. However, it is important to recognize that these projected gains are themselves subject to many unknowns, even though they do represent a best reasoned guess.

Although ISER is not in the oil forecasting business, if oil prices stay in the \$16-20 range, we project state spending could be sustained reasonably close to its current spending levels. However, to do so would require generating an additional \$250 million or the equivalent of using approximately one-fourth of the earnings of the Permanent Fund. If oil prices fall below this range or new nonpetroleum revenues are not available, then current levels of state spending cannot be sustained.



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Should the state receive a large cash settlement or payment in relation to its various lawsuits, these new revenues should be viewed and treated as one-time revenues. Any amount of these funds received and expended which exceeds the projected economic gains or which cannot be sustained by future oil price increases will further destabilize the economy. The exception to this rule is the extent to which the state spends such funds on projects or programs that generate sustainable economic activity, independent of future state spending.

Conclusions and Recommendations. The answer to the question "could an increase in state spending accelerate the projected economic recovery?" therefore lies in the assessment of the level of state spending which can be sustained over time. An increase in state spending will not hasten an enduring economic recovery unless the increased spending can be sustained or the state's basic industries increase their economic output to match a future decline in state spending.

ISER is projecting annualized employment gains in 1989 of about 2000. Applying an average wage of \$50,000 per job, it is conceivable that the personal income added to the economy would be in the vicinity of \$100 million over that of 1988. Thus, devising a state plan to spend an additional \$100 million above the level it can sustain could be absorbed by the private economy as it recovers. This additional expenditure would be a one-time expenditure, and it would be important to devise criteria to ensure that the expenditure maximize its economic impact and minimize future claims to state spending.

It would be counterproductive if the additional state spending constructed facilities which subsequently had to be operated and maintained, attracted outside workers rather than unemployed resident workers, or aided individuals or businesses that have not been adversely affected by the recession or that are likely to leave Alaska or fail as a business independently of the state's assistance. Ideally, the funds would attract additional dollars to Alaska and stimulate investment in Alaska's basic economy. Thus, to maximize the economic benefit of the additional state spending, the spending should be specifically targeted to where it will do the greatest net economic good.

Types of projects which would generally meet these criteria would include such initiatives as (1) an employment program for youth and the chronically unemployed (like a conservation corps building recreational cabins and related improvements in state



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parks), (2) a major maintenance and repair program which would be labor intensive and reduce future O&M costs, (3) a tax relief or refinance program for small Alaska businesses which are viable but undercapitalized, and (4) a challenge fund which matches organizations which increase their recent levels of federal or philanthropic funding on some predetermined ratio.

There are also a variety of measures the state can and should take to provide economic relief to individuals, businesses, organizations, and markets which are experiencing severe hardship and future uncertainty. AHFC and AIDA have already initiated programs which may provide substantial economic benefits at relatively minimal expense to the state.

Please feel free to call me if you would like to discuss this matter further or would like any additional elaboration.



Figure 2.1

# ALASKA EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

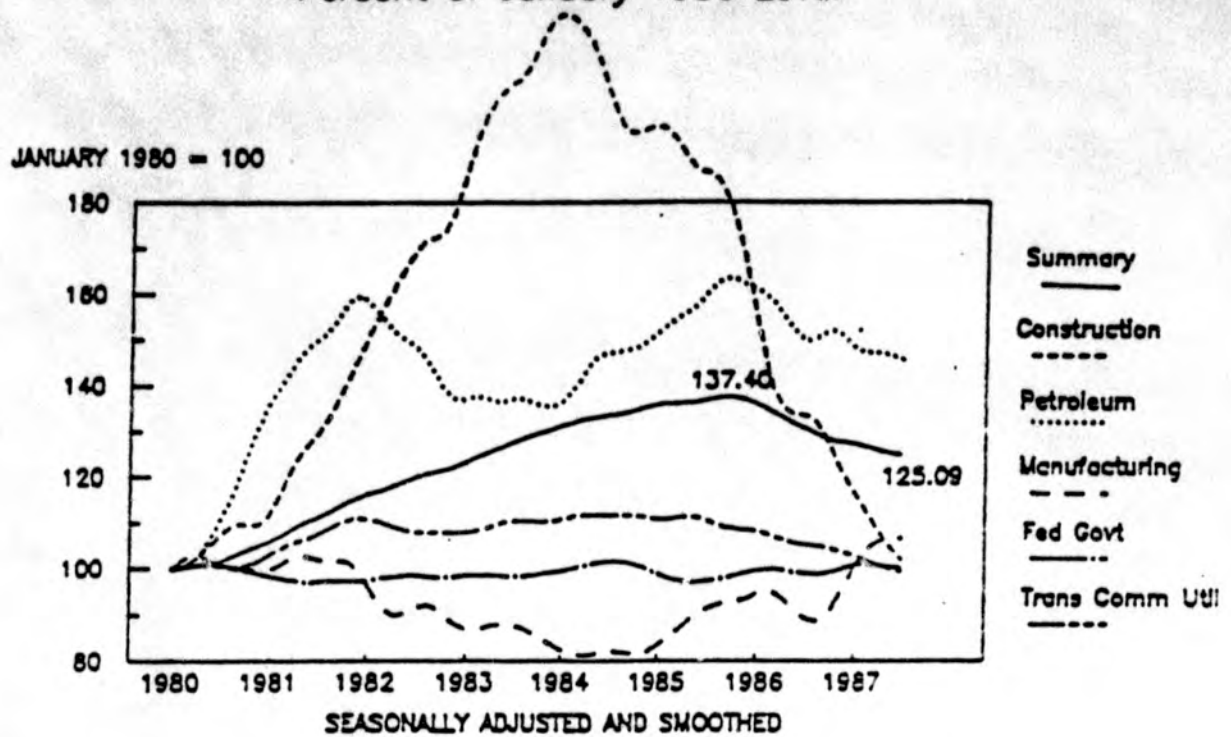


Figure 2.1

# ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

JANUARY 1980=100

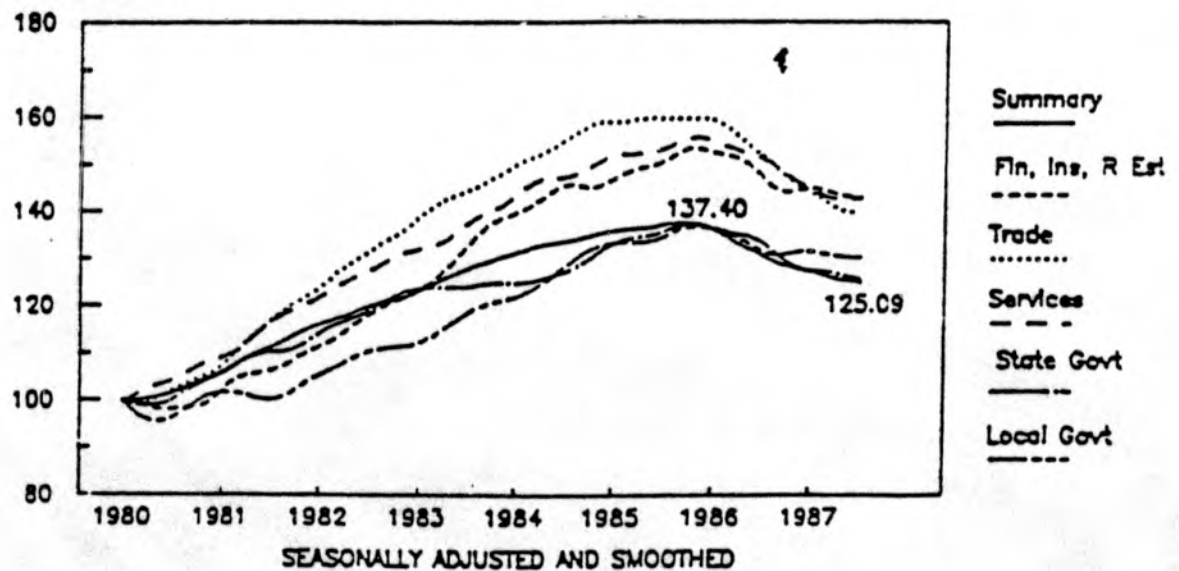


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK  
(seasonally adjusted annual average in thousands)

|                                                        | Job<br>Peak<br>Sept.<br>1985 | Employment   |                   |                           |                 |
|--------------------------------------------------------|------------------------------|--------------|-------------------|---------------------------|-----------------|
|                                                        |                              | June<br>1987 | Loss<br>from Peak | Estimated<br>June<br>1988 | Further<br>Loss |
| Total Wage and Salary                                  | 230                          | 209          | 21                | 202                       | 7               |
| Mining                                                 | 9.8                          | 8.8          | 1                 | 9                         | -               |
| Manufacturing <sup>a</sup>                             | -                            | 14.8         | -                 | 14                        | 1               |
| Federal Civilian <sup>a</sup>                          | -                            | 18           | -                 | 18                        |                 |
| Transportation,<br>Communications,<br>Public Utilities | 19                           | 17           | 2                 | 17                        |                 |
| Construction <sup>b</sup>                              | 22                           | 10.2         | 11.8              | 8                         | 2               |
| Finance                                                | 11.8                         | 11.2         | .6                | 11                        |                 |
| Trade                                                  | 45.9                         | 39.9         | 6                 | 39                        | 1               |
| Services                                               | 45.6                         | 41.4         | 4.2               | 40                        | 1               |
| State Government                                       | 20.7                         | 19.3         | 1.4               | 18                        | 1               |
| Local Government                                       | 29.5                         | 28.2         | 1.3               | 27                        | 1               |

<sup>a</sup>No significant loss from peak to date. These industries are experiencing a cyclical peak.

<sup>b</sup>Peak month--January 1984.

Figure 2.5

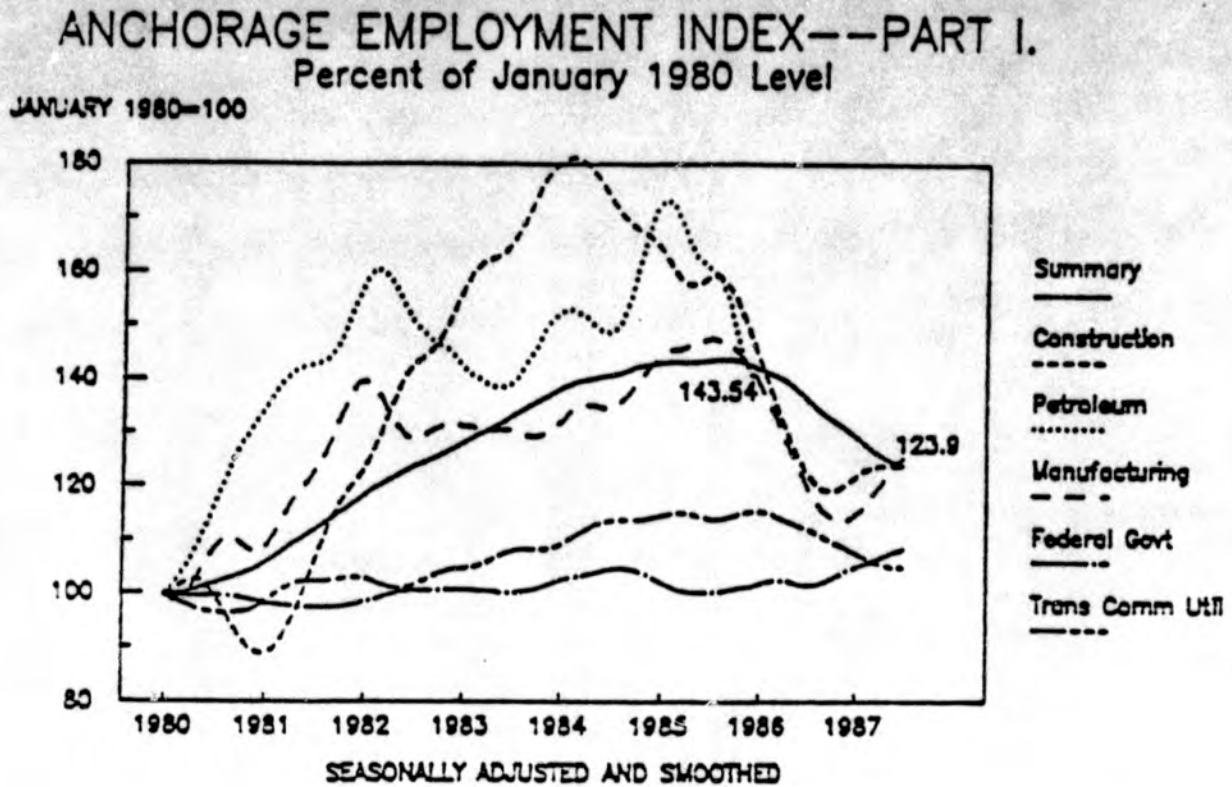


Figure 2.6

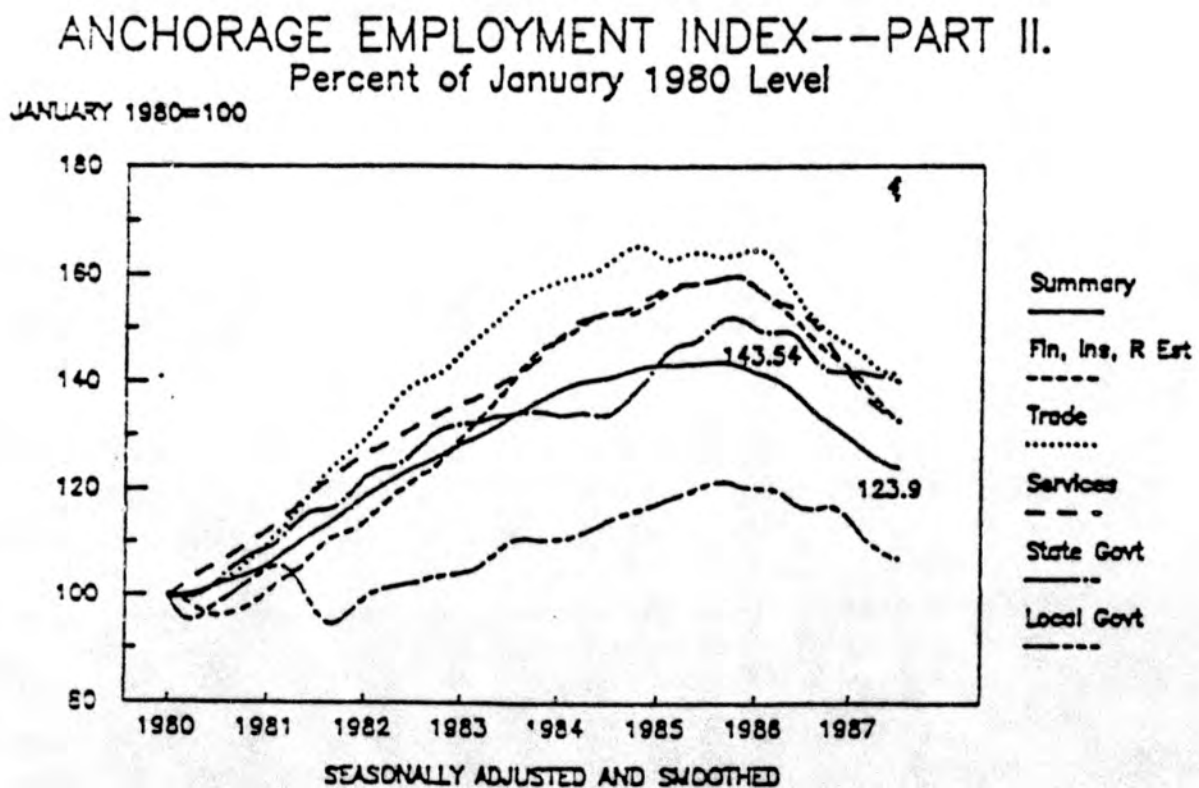




Figure 2.11

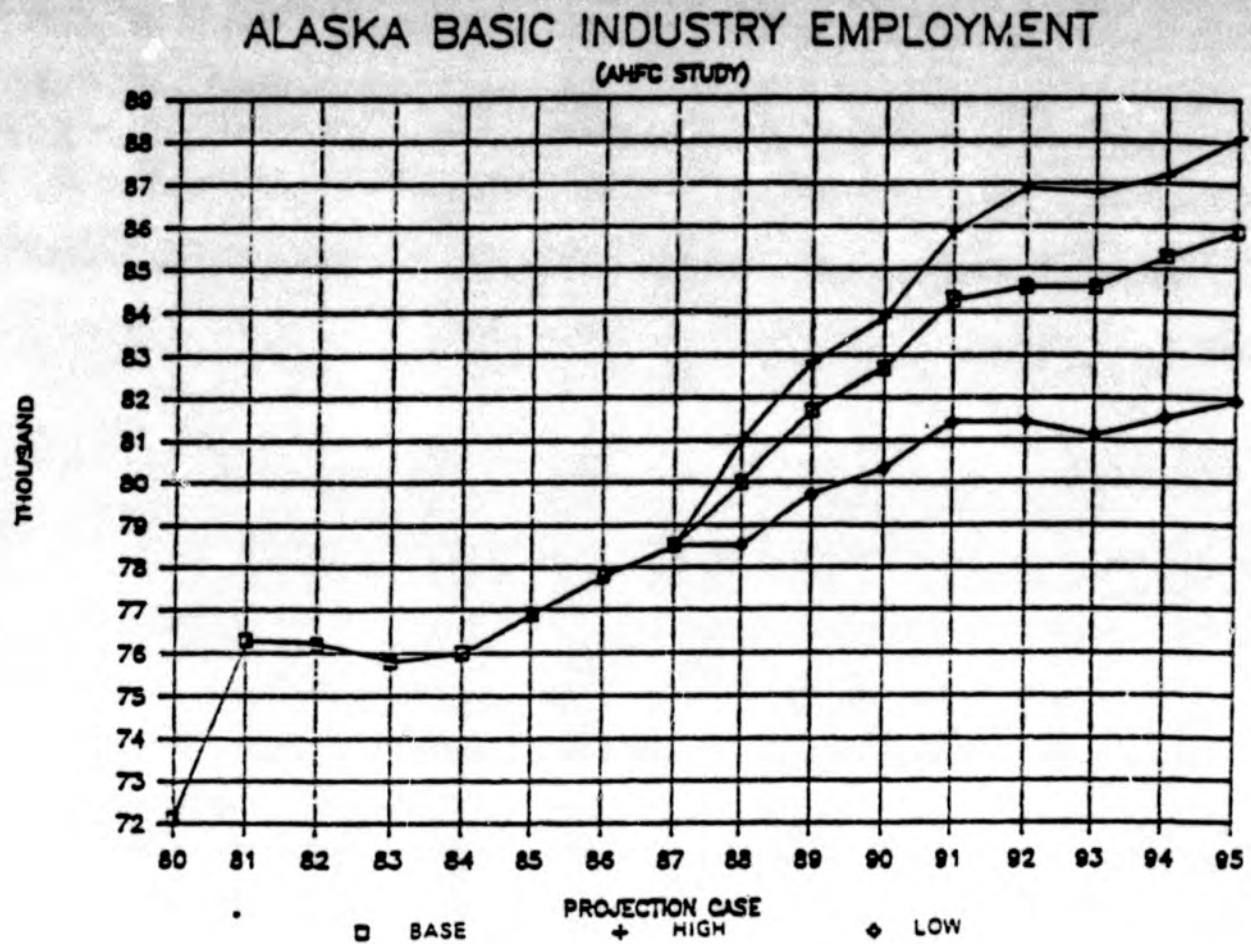


Figure 2.12

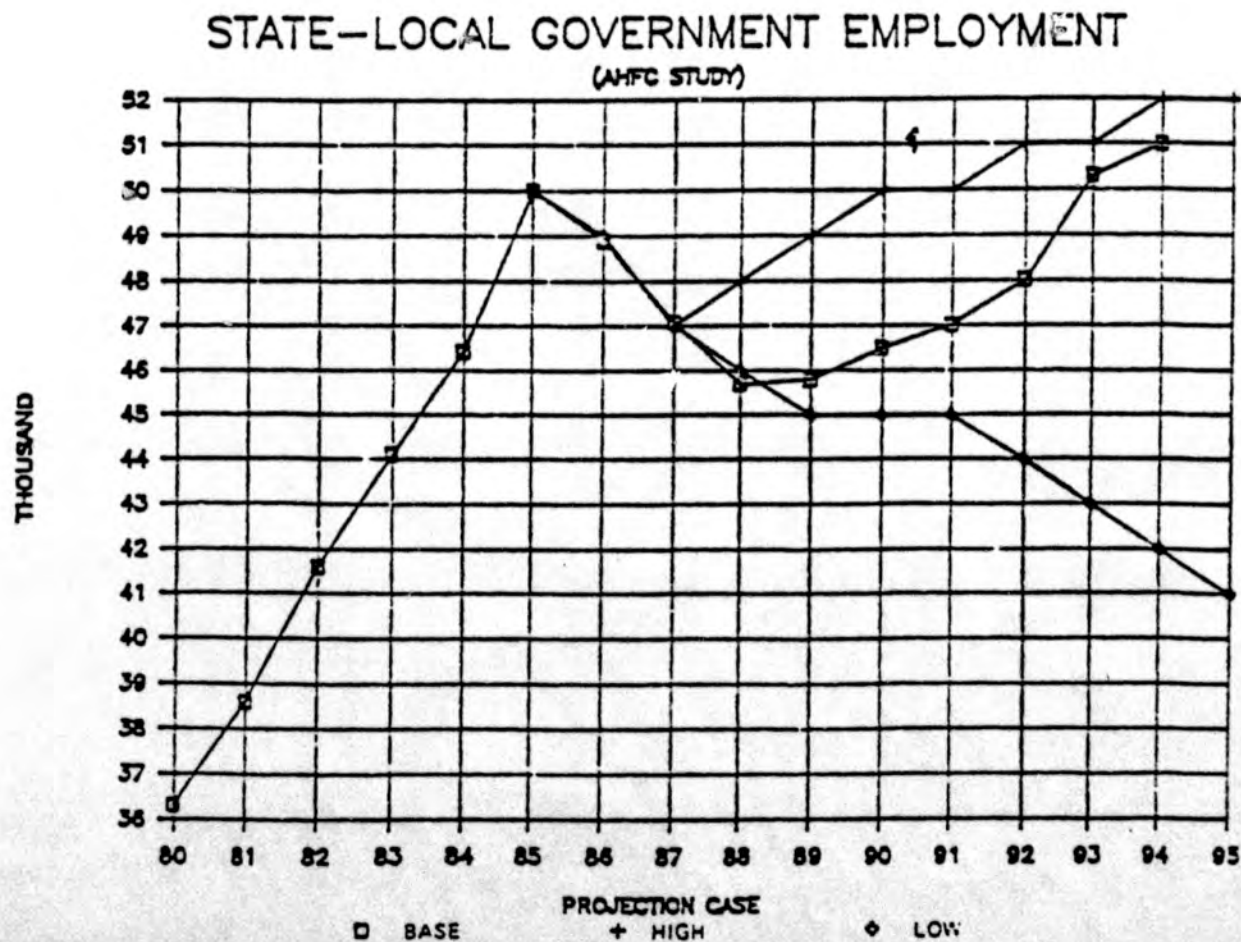


Figure 2.15

# ALASKA INFRASTRUCTURE EMPLOYMENT (AHFC STUDY)

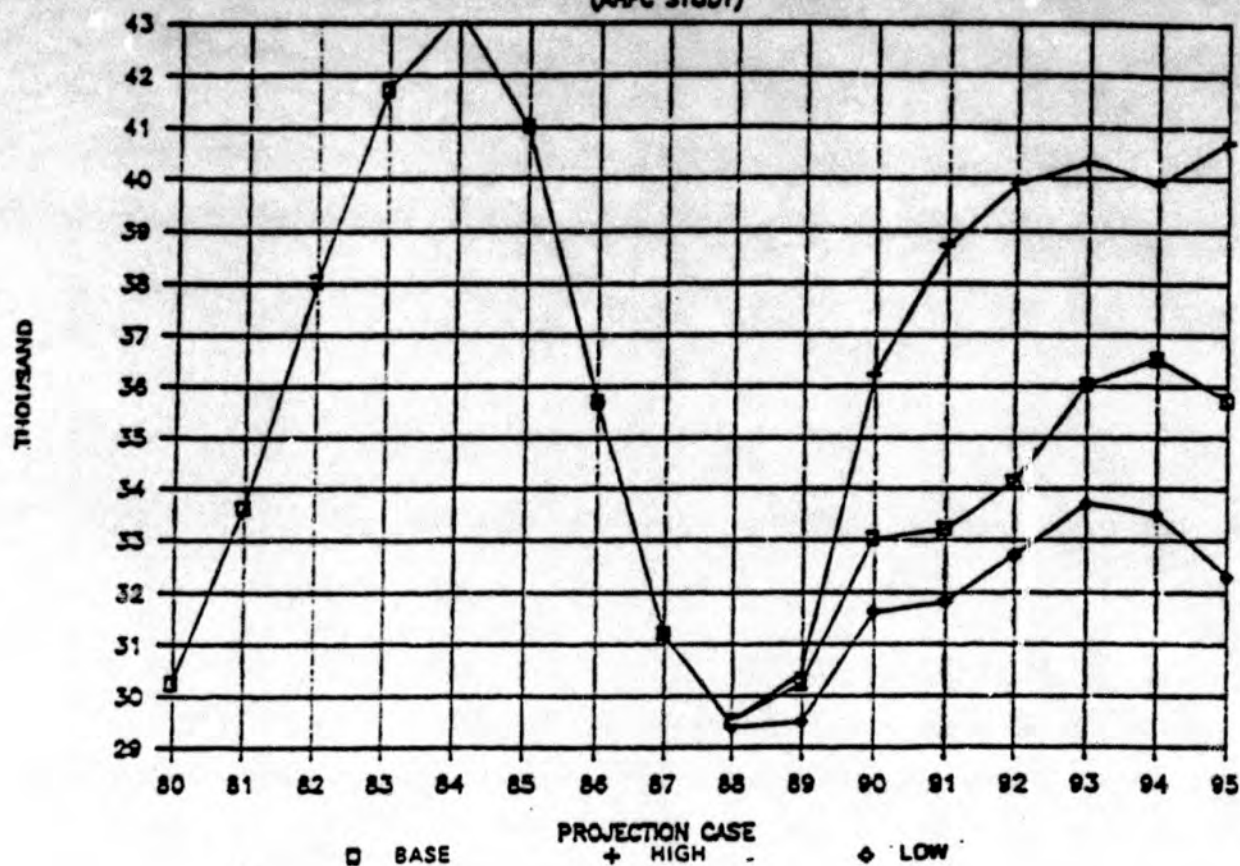


Figure 2.16

# ALASKA SUPPORT INDUSTRY EMPLOYMENT (AHFC STUDY)

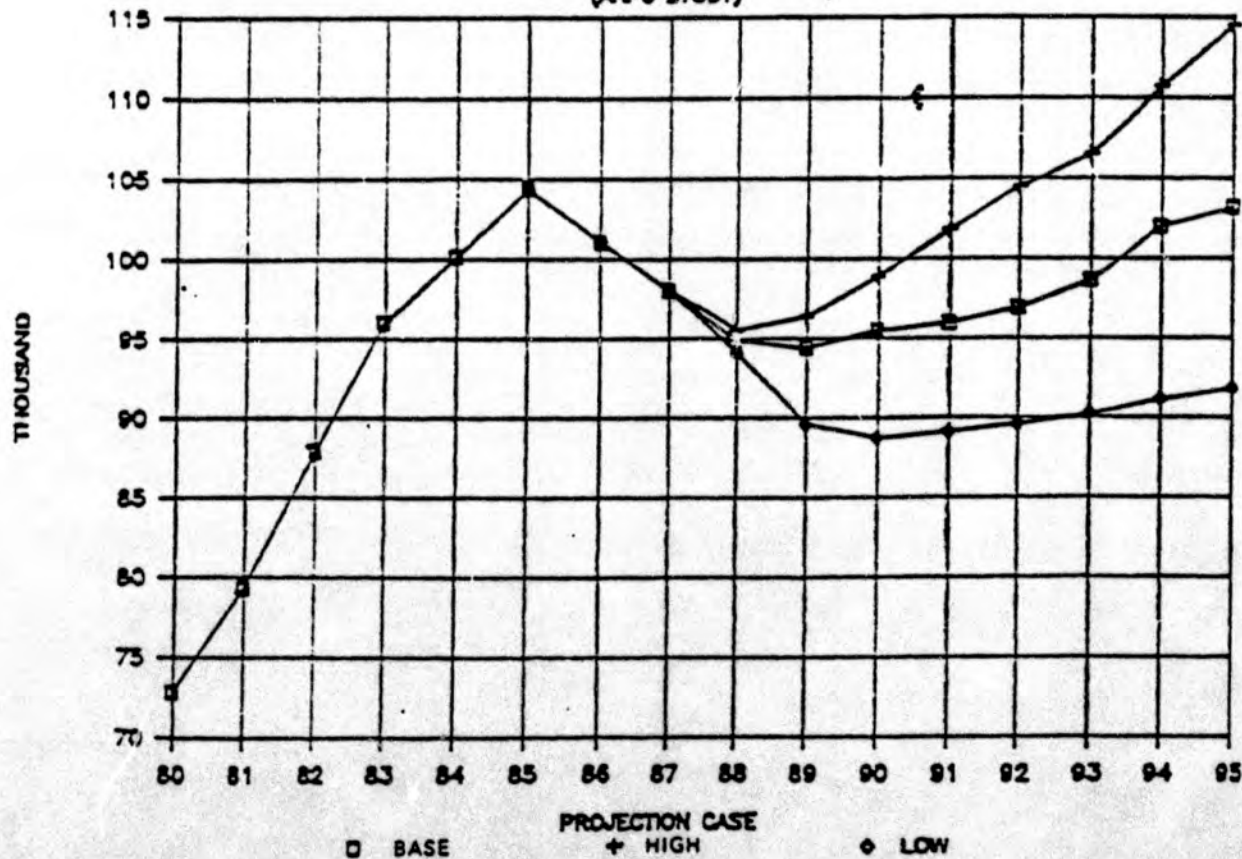


Figure 2.17

# ALASKA WAGE AND SALARY EMPLOYMENT (AHFC STUDY)

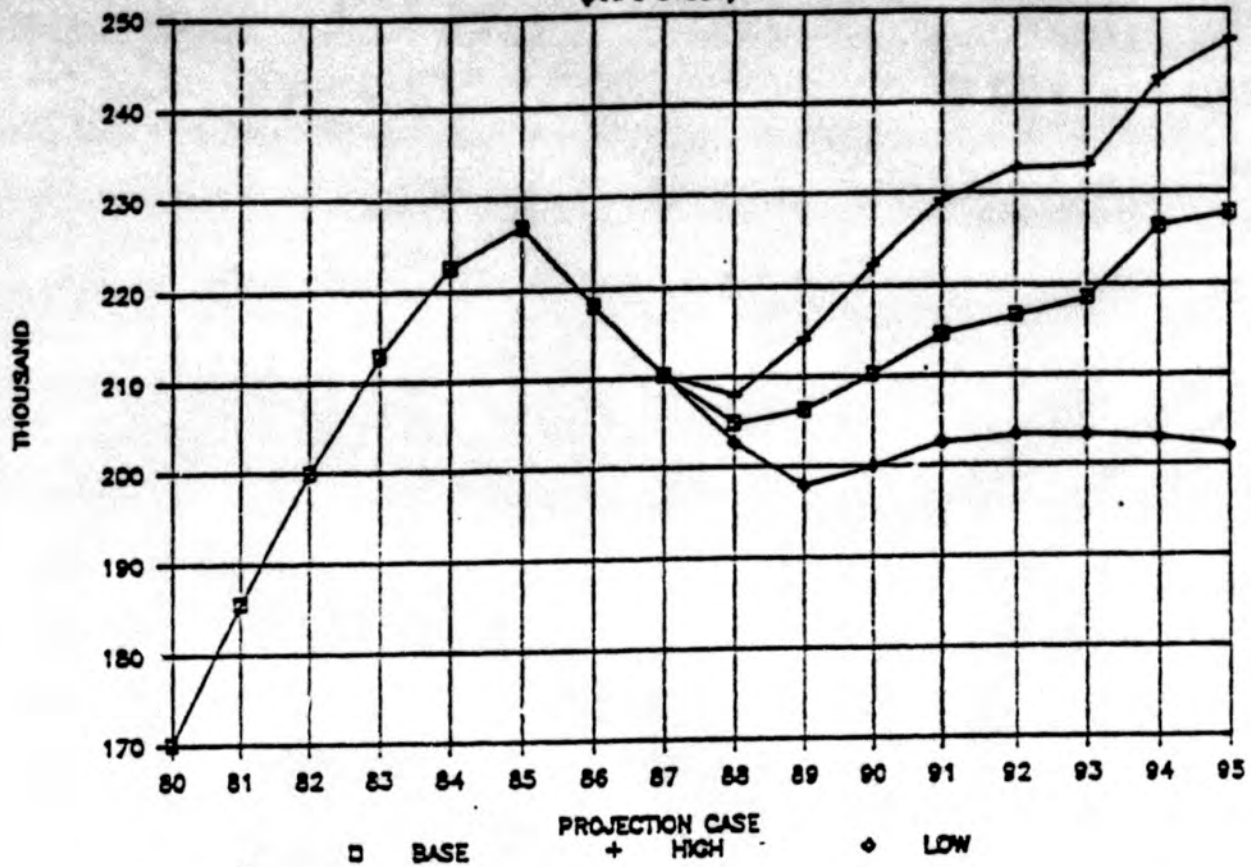


Figure 2.18

# ALASKA REAL PERSONAL INCOME (AHFC STUDY)

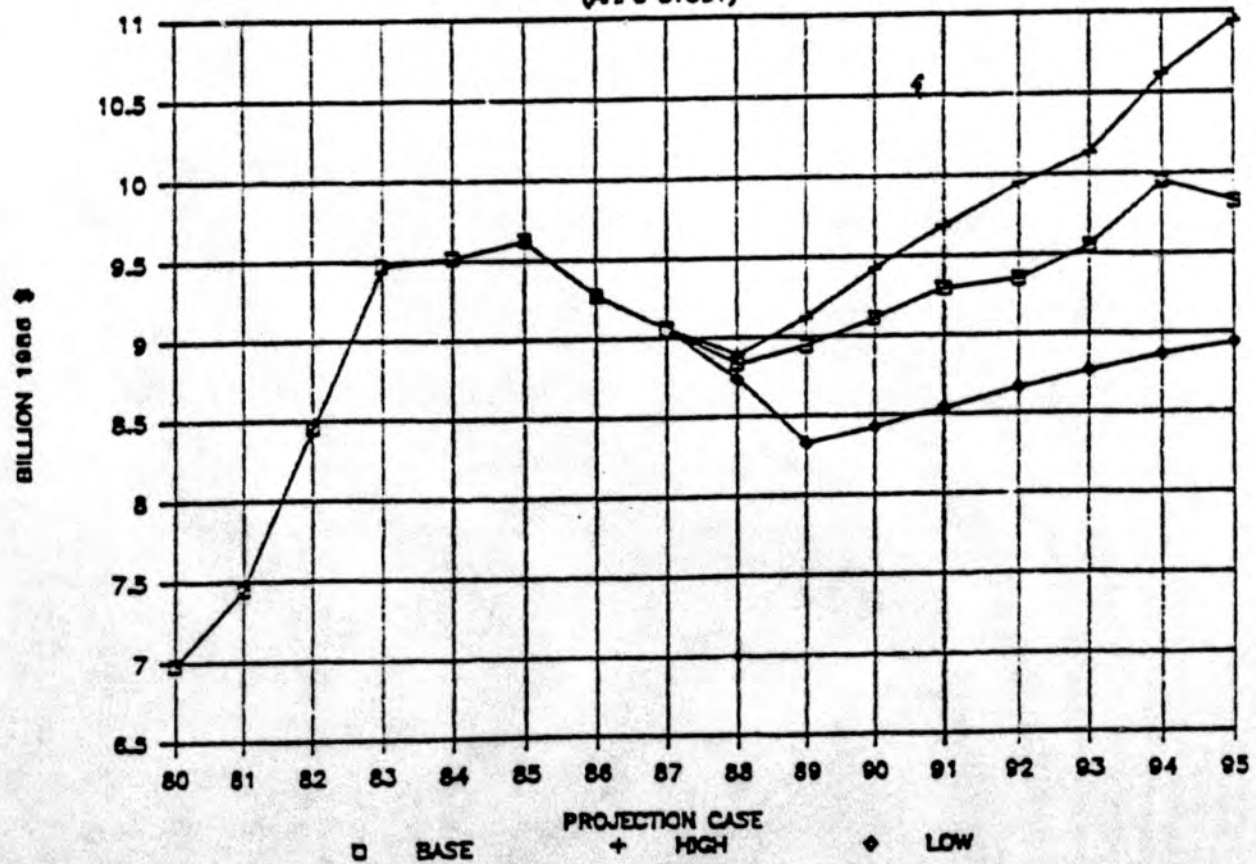




Figure 2.19

# REAL PER CAPITA DISPOSABLE INCOME (AHFC STUDY)

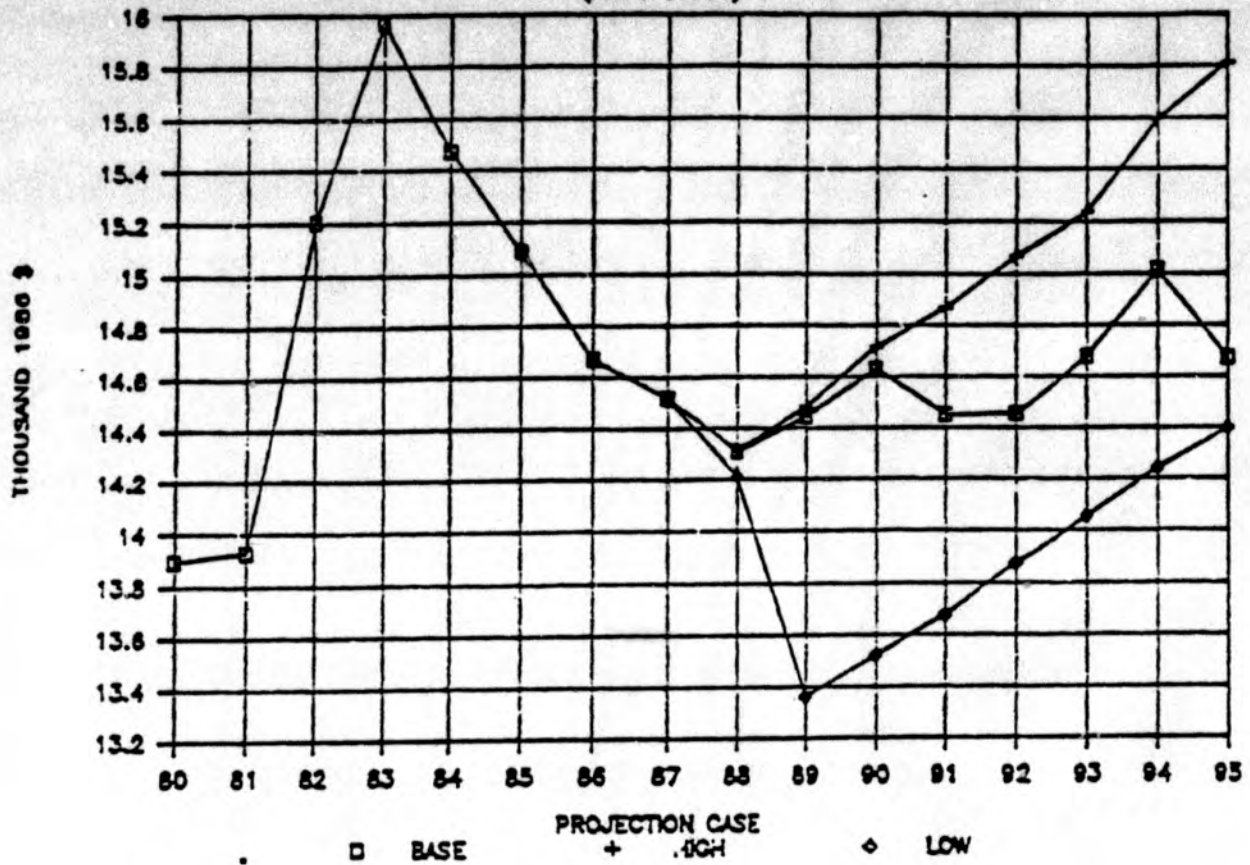


Figure 2.20  
ALASKA POPULATION  
(AHFC STUDY)

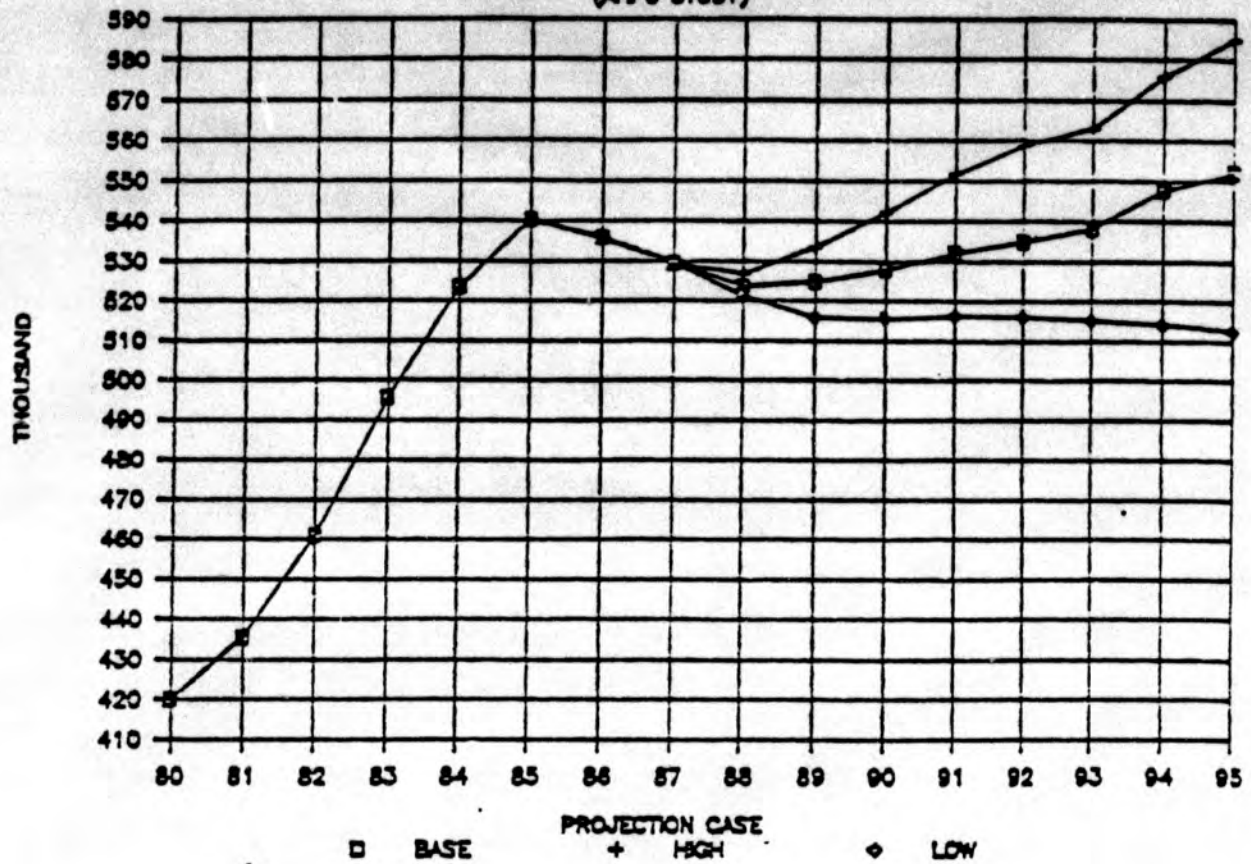


Figure 2.21  
ALASKA HOUSEHOLDS  
(AHFC STUDY)

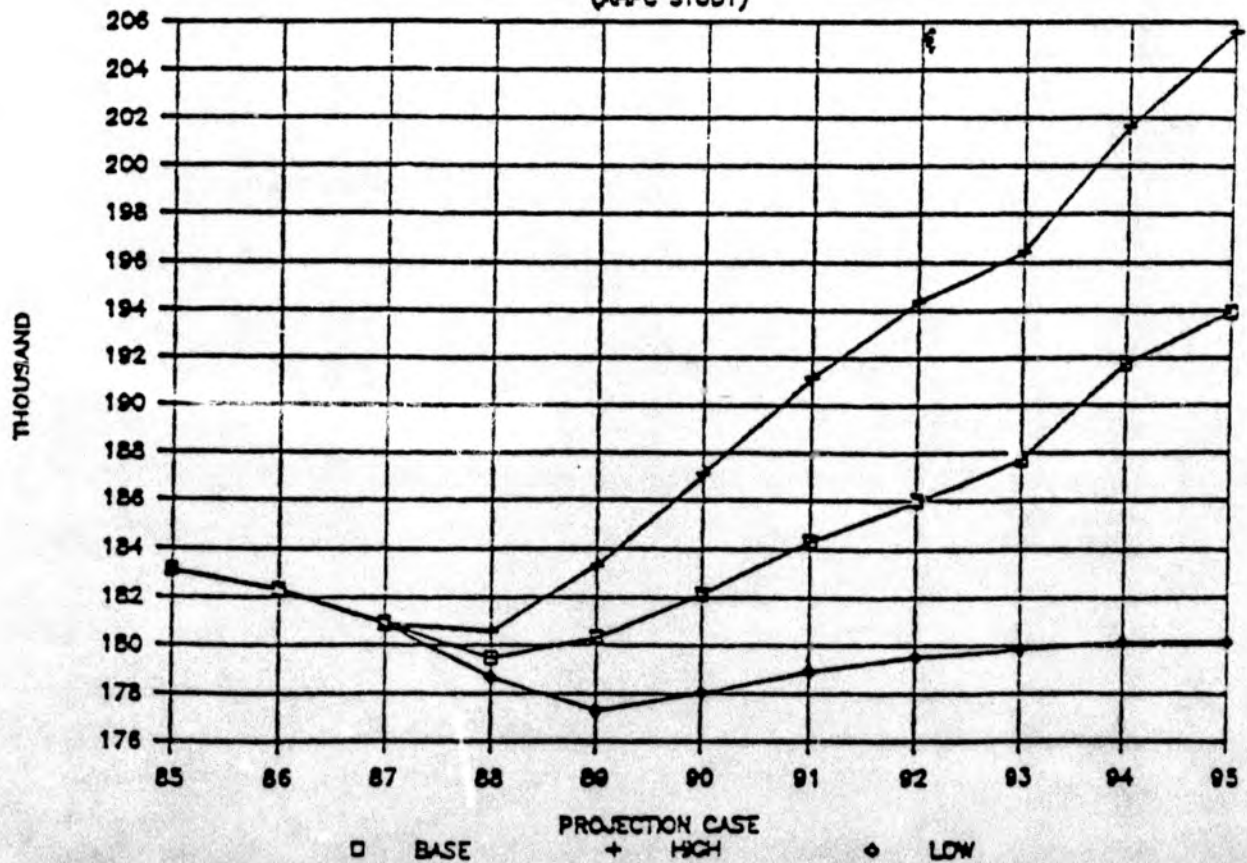


Figure 2.13

# PETROLEUM REVENUES: GENERAL FUND (AHFC STUDY)

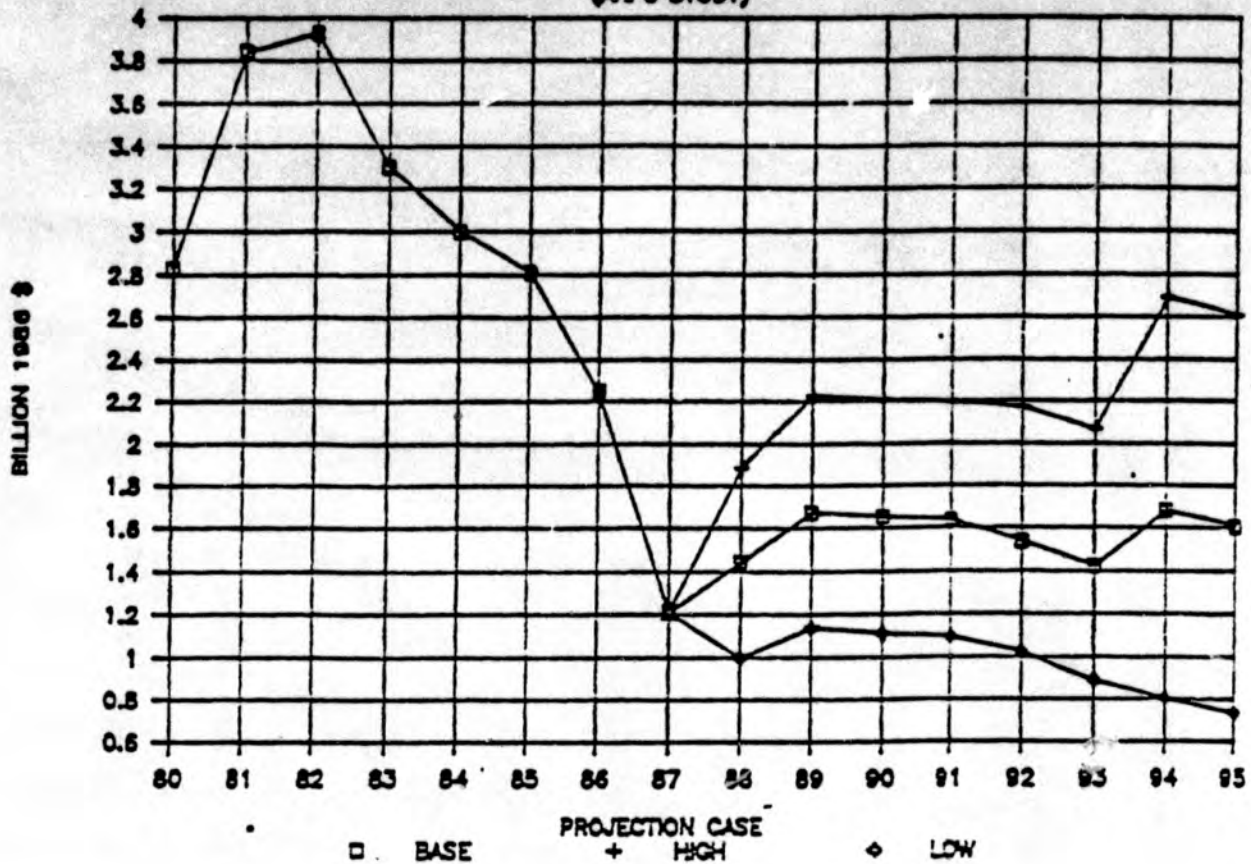


Figure 2.14

# STATE EXPENDITURES : GENERAL FUND (AHFC STUDY)

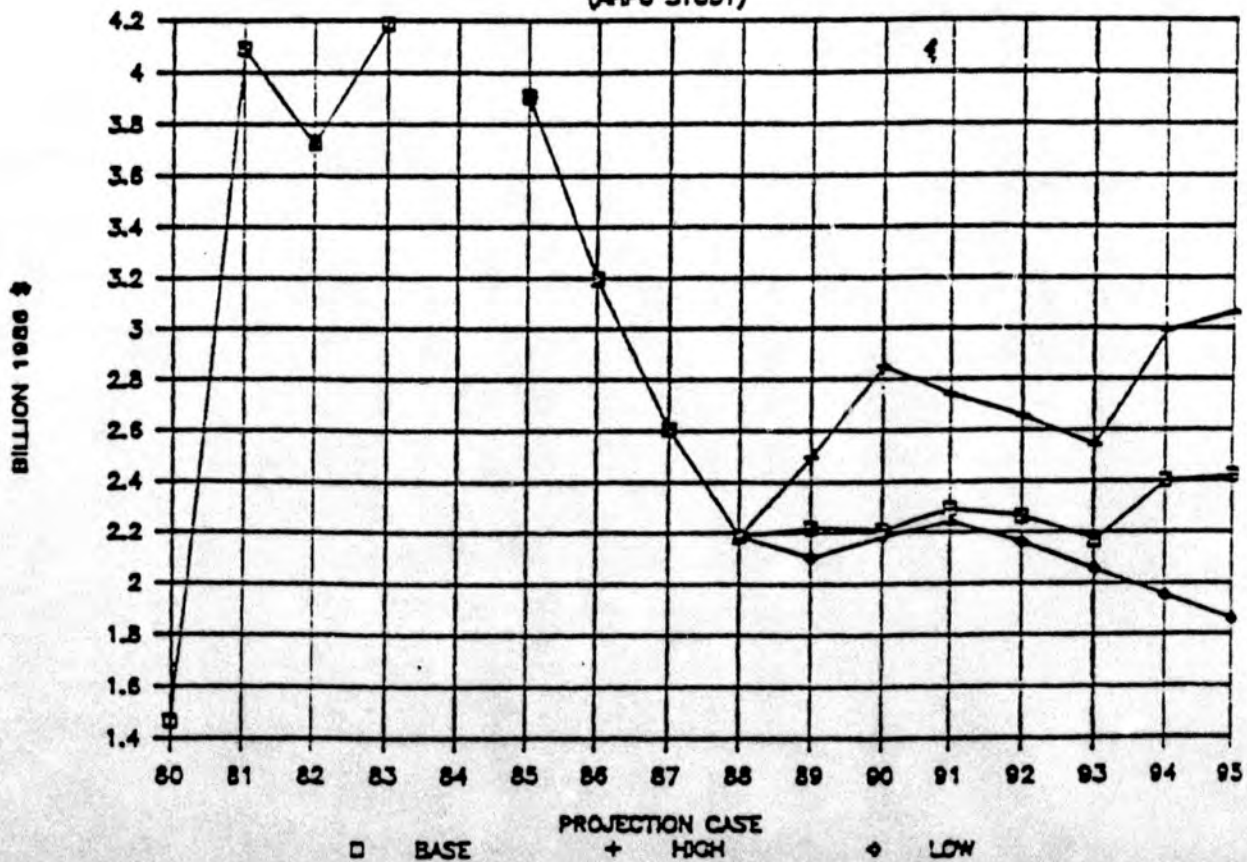




Figure 2.26

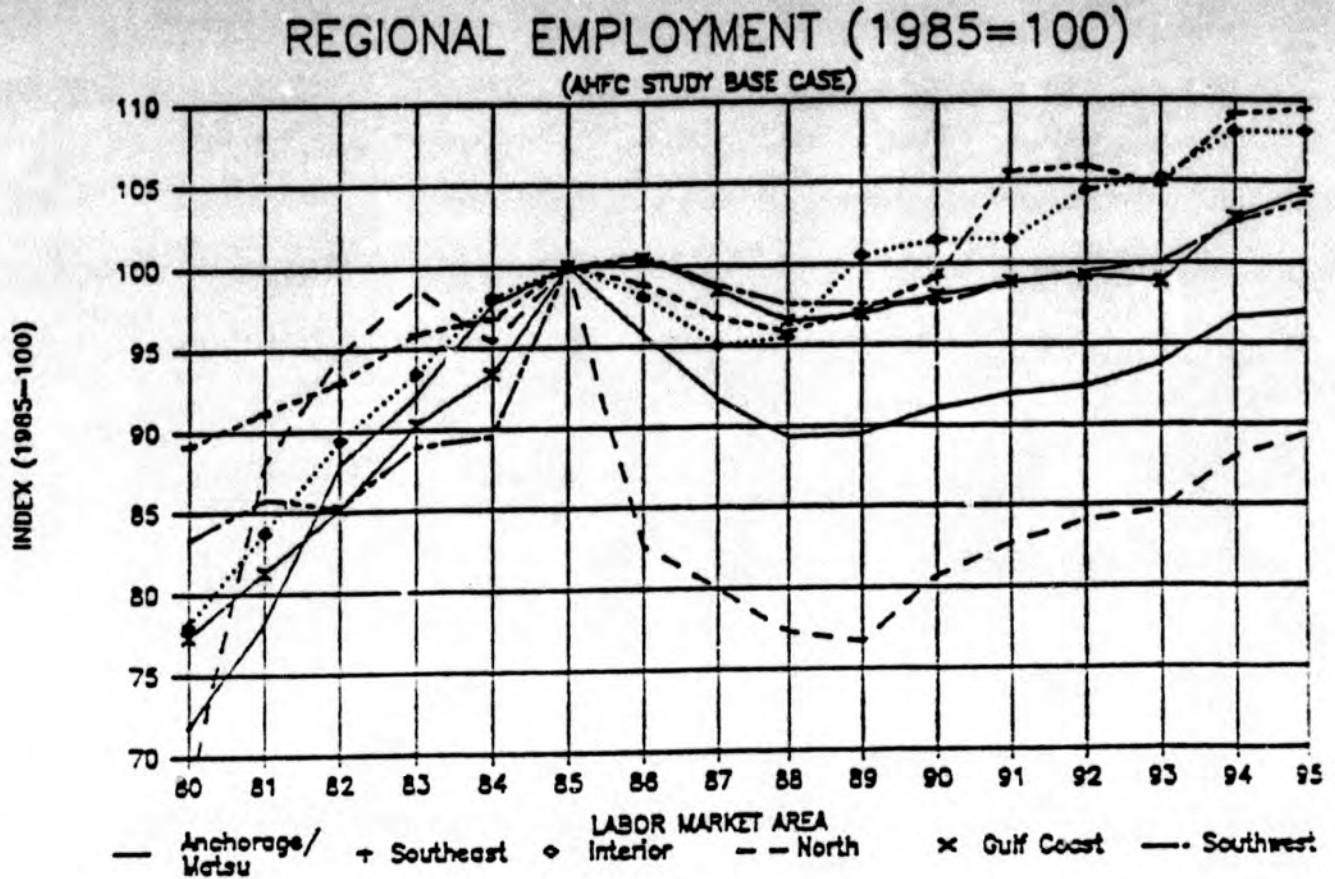


Figure 2.27

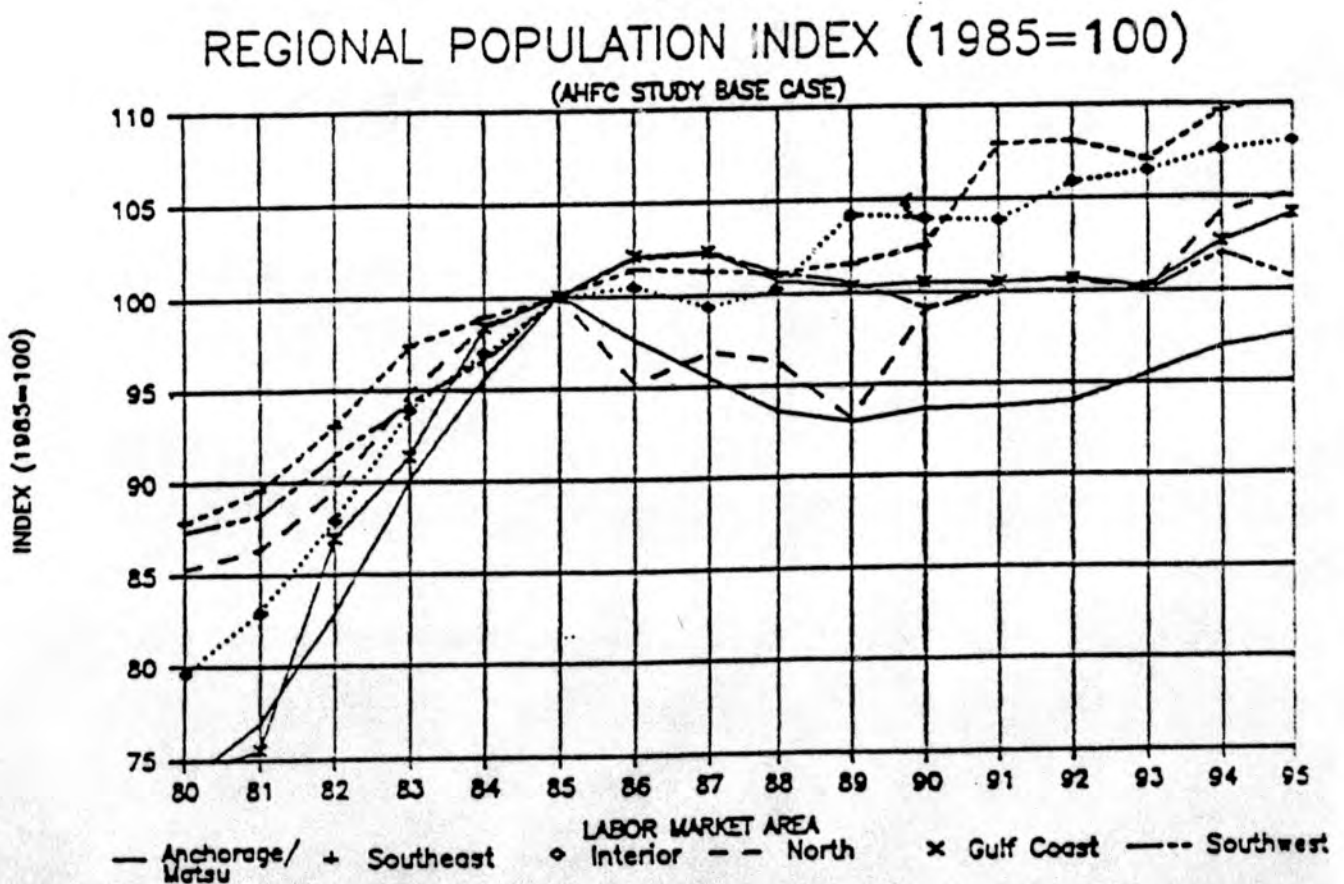


Figure 2.28  
ANCHORAGE/MATSU POPULATION  
(AHFC STUDY)

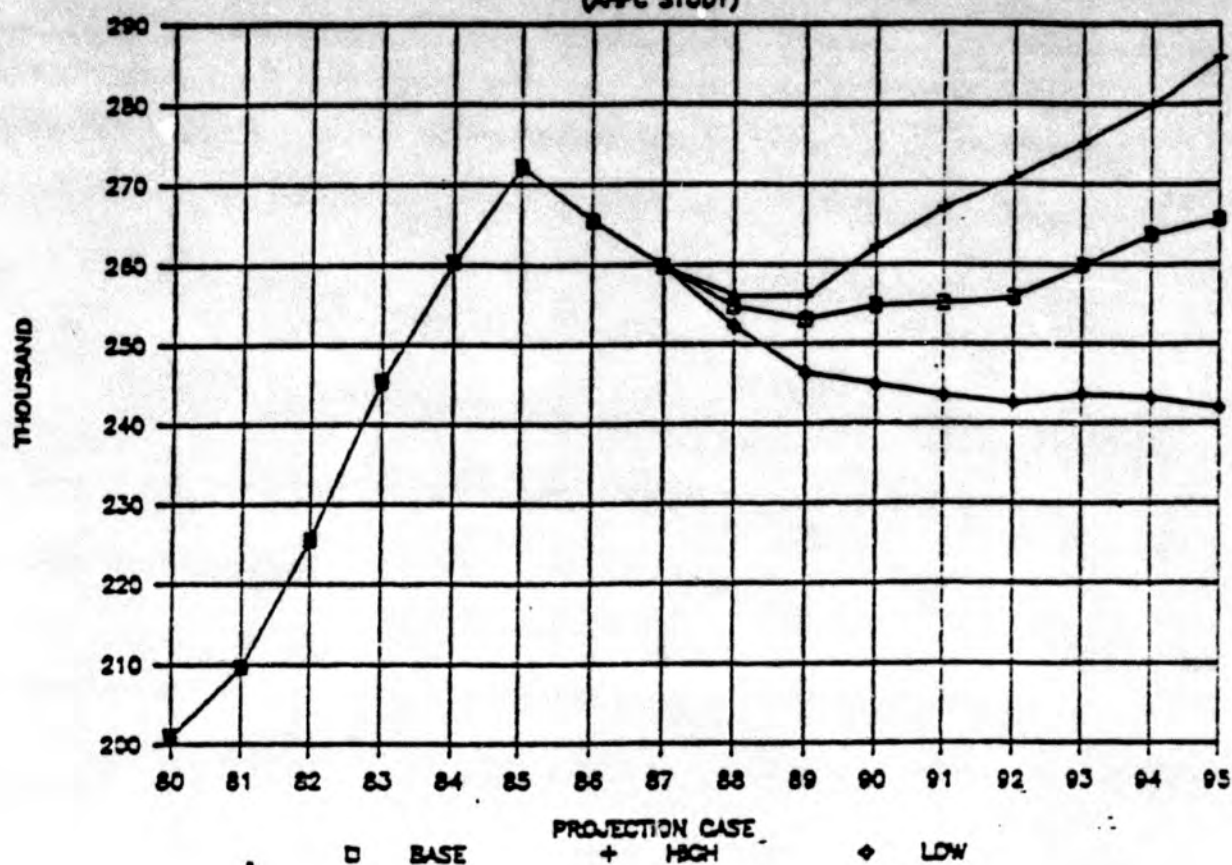
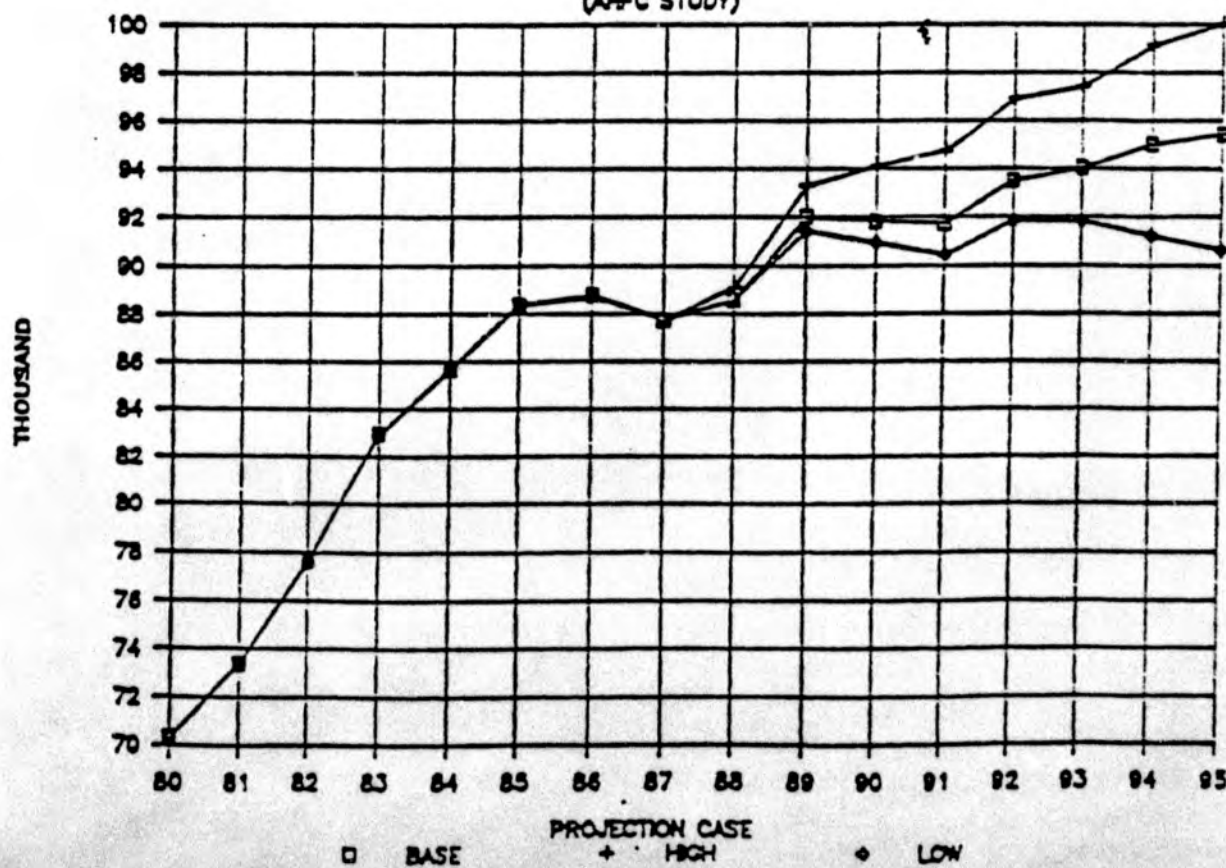


Figure 2.29  
INTERIOR POPULATION (GREATER FAIRBANKS)  
(AHFC STUDY)



1987 AHFC STUDY  
SUMMARY OF MAP MODEL ASSUMPTIONS: BASE [AHFC.B]

- A. PETROLEUM REVENUE ASSUMPTIONS: \$19 WORLD PRICE
- B. FISCAL ASSUMPTIONS: NEW REVENUES MEASURES IMPOSED  
IN EARLY 1990S (A6.2EX1)
- C. INDUSTRY ASSUMPTIONS: MODERATE GROWTH (S87.N1)
- D. NATIONAL VARIABLE ASSUMPTIONS: MODERATE GROWTH

A. PETROLEUM REVENUE ASSUMPTIONS

- |                                                       |                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Average Expected<br>OPEC Price                     | \$19 nominal world oil price in late 1980s. The real price rises slightly faster than inflation in 1990s.                                                                                                                                                                                                                                                                       |
| 2. Petroleum Production--<br>North Slope & Cook Inlet | Total production gradually declines with the depletion of the giant Prudhoe Bay field from 674 million barrels/year in 1987 to 452 in 1995 and 187 in 2003. Producing fields include Prudhoe Bay, Kuparuk, West Sak, Lisburne, Endicott, Milne Point, Cook Inlet, and other small onshore and offshore fields (DORD6.7X).                                                       |
| 3. Severance Taxes                                    | Based on assumed price and production applied to current tax structure. After 2003, revenues remain constant in nominal dollars (DORD6.7X). Alyeska pipeline tariff dispute settlement revenues included [RPTS].                                                                                                                                                                |
| 4. Royalties                                          | Based on assumed price and production applied to current royalty structure. After 2003, revenues remain constant in nominal dollars. These revenues are distributed between the General Fund and Permanent Fund (DORD6.7X) [RPRY].                                                                                                                                              |
| 5. Bonuses                                            | Alaska receives \$500 million over the period FY 1989 to 1992 in settlement of disputed offshore leases in the Beaufort Sea. Also treated as bonuses are \$500 million received between 1991 and 1995 in settlement of lawsuits and tax disputes regarding the valuation of North Slope oil. These revenues are distributed between the General Fund and Permanent Fund [RPBS]. |

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(a) Codes in parentheses indicate ISER names for MAP Model SCEN\_ case files, and codes in brackets indicate MAP variable names.



- |                                                     |                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. Property Taxes                                   | Based on projections published by Alaska Department of Revenue, <u>Revenue Sources</u> (DORD6.7X) augmented by taxes on onshore facilities related to OCS development (OCS.6NGT -12) [RPPS].                                                                                                                 |
| 7. Petroleum Corporate Income Tax                   | Based on projections published by Alaska Department of Revenue, <u>Revenue Sources</u> (DORD6.7X). No change in tax regulations [RTCSPX].                                                                                                                                                                    |
| 8. Rents                                            | Increasing slowly from current level of \$8 million [RFEN].                                                                                                                                                                                                                                                  |
| 9. Miscellaneous Petroleum Revenues                 | Zero [RP9X].                                                                                                                                                                                                                                                                                                 |
| 10. Federal-State Petroleum-Related Shared Revenues | Increasing \$1 million annually from current level of \$25 million [RSFDNPX].                                                                                                                                                                                                                                |
| 11. Windfalls                                       | During FY 1986 the Permanent Fund experienced a capital gain of approximately \$323 million. During FY 1987, \$250 million accrues to Alaska from a litigation settlement with ARCO, \$450 million in settlement of the Alyeska pipeline tariff dispute, and \$50 million from past federal revenue sharing. |

## B. FISCAL ASSUMPTIONS

### B.1. State Appropriations

- |                                                   |                                                                                                                                                                                                  |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Aggregate Appropriations                       | If funds available, ceiling established by Constitutional Spending Limit; otherwise appropriations equal revenues plus 50 percent [EXWIND] of general fund balance available for appropriations. |
| 2. Capital/Operations Split                       | Two-thirds operations if Spending Limit in effect; 85 percent operations otherwise [EXSPLITX].                                                                                                   |
| 3. General Obligation Bonds                       | Bonding occurs up to point where debt service is 5 percent of state revenues.                                                                                                                    |
| 4. Federal Grants-in-Aid for Capital Expenditures | Constant at \$75 million [RSFDNCAX].                                                                                                                                                             |

|                                                                    |                                                                                                                                                                                                                 |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. State Loan Programs                                             | New capitalization terminated after FY 1987 [EXKTR1X]. Programs continue functioning on existing capitalization including AHFC [EXLOAN2] and APA revenue bond expenditures [EXCPSR1].                           |
| 6. Municipal Capital Grants                                        | Funding terminated after FY 1987 [RLTHCAP].                                                                                                                                                                     |
| 7. State-Local Revenue Sharing                                     | Continuation proportional to total state expenditures [RLTRS].                                                                                                                                                  |
| 8. State-Local Municipal Assistance                                | Continuation proportional to total state expenditures [RLTMA].                                                                                                                                                  |
| 9. Permanent Fund/Other Appropriations in Excess of Spending Limit | None for operations [EXGFOPSX]; none for capital [EXSPCAP].                                                                                                                                                     |
| <u>3.2. Permanent Fund</u>                                         |                                                                                                                                                                                                                 |
| 10. Permanent Fund Principal                                       | Continuous accumulation from petroleum revenues [EXPFI]; inflation-proofing eliminated when complete withdrawal of earnings commences.                                                                          |
| 11. Permanent Fund Earnings                                        | A quarter of the earnings after payment of the dividend are allocated to the General Fund beginning in 1988, rising to 50 percent of earnings in 1998, 75 percent in 2002, and all earnings in 2005 [EXPFTOGF]. |
| 12. Permanent Fund Dividend                                        | Eliminated after FY 1994 distribution which occurs in the fall of that year [EXPFDIST].                                                                                                                         |
| <u>3.3. Revenues</u>                                               |                                                                                                                                                                                                                 |
| 13. Personal Income Tax                                            | Reimposed FY 1991; collections begin January of that year [EXPIT].                                                                                                                                              |
| 14. Miscellaneous Local Revenue Sources                            | Miscellaneous state-local transfers [RLTX], large project property taxes [RLPTX], petroleum-related federal transfers [RLTFPX] all set to zero.                                                                 |
| 15. New Federal-State Shared Revenues                              | Zero [RSFDNX].                                                                                                                                                                                                  |

16. Large Project Corporate  
Income Taxes

Zero [RTCSX].

B.4. Miscellaneous

17. State-Local Wage Rates

Constant average real wage rate  
beginning from 1988 through 1995  
[EXWR].

C. INDUSTRY ASSUMPTIONS

1. Trans-Alaska Pipeline

Operating employment remains constant  
at 885 through 2010 (TAP.S86X).

2. North Slope--ANWR  
Petroleum Development  
and Production

Petroleum industry employment on the  
North Slope rises from 3.5 thousand in  
1988 to 4 thousand in 1998. Employment  
engaged in new construction is  
constant at 1 thousand (NSO.S87A).

3. Upper Cook Inlet  
Petroleum Production

Employment in exploration and devel-  
opment of oil and gas in the Upper  
Cook Inlet area declines gradually  
beginning in 1983 by approximately  
2.5 percent per year (UPC.S86).

4. OCS Development

Employment in exploration and develop-  
ment activity associated with Bering  
Sea and Arctic areas peaks at about  
7,000 in 2005. Direct employment con-  
tinues through the following decade at  
a level of about 3,000 (OCS.6NGT -12).

5. Oil Industry Headquarters

Oil company headquarters employment in  
Anchorage remains at about 3,900  
through 2010 (OHQ.S86).

6. Healy Coal Mining

Export of approximately 1 million tons  
of coal annually adds 25 new workers  
to current base of 100 by 1986  
(HCL.84X).

7. Beluga Chuitna Coal  
Production

Development of a 4.4 million ton/year  
mine for export beginning in 1989  
provides employment of 524 (BCL.04T -4).

8. U.S. Borax

The U.S. Borax mine near Ketchikan is  
brought into production with operating  
employment of 685 beginning in 1993 and  
eventually increasing to 1,020  
(BXM.F84-4).



9. Greens Creek Mine  
Production from the Greens Creek Mine on Admiralty Island results in employment of 150 people from 1988 through 2003 (GCM.F84).
10. Red Dog Mine  
The Red Dog Mine in the Western Brooks Range begins operation in 1991 with production employment of 393 rising to 428 (RED.F84-1).
11. Other Mining Activity  
Mining employment not included in special projects increases from current level at 1 percent annually (OMN.S86).
12. Agriculture  
Reduction in state support results in constant employment in agriculture (AGR.S86).
13. Logging and Sawmills  
Logging for export by Native corporations expands employment to 3,100 by 1992 before declining at 1% annually due to productivity gains (FLL.S87).
14. Pulp Mills  
Productivity gains result in employment declines at a rate of 1 percent per year after 1991 from the present level of 600 (FPU.S86).
15. Commercial Fish  
Harvesting--Nonbottomfish  
Employment levels in traditional fisheries harvest remain constant at 7,500 through 2010 (TCF.S86).
16. Commercial Fish  
Processing--Nonbottomfish  
Employment in processing traditional fisheries harvest remains at 7,000 (TFP.S87).
17. Commercial Fishing--  
Bottomfish  
The total U.S. bottomfish catch expands at a constant rate to allowable catch in 2000, with Alaska resident harvesting employment rising to 1.033 thousand. Onshore processing capacity expands in the Aleutians and Kodiak census divisions to provide total resident employment of 1.471 thousand by 2000 (BCF.S86).
18. Federal Military  
Employment  
Employment declines at 1 percent per year, consistent with the long-term trend since 1960 (CFM.S86).

19. Light Army Division  
Deployment

A portion of a new Army division is deployed to Fairbanks and Anchorage beginning in 1986, augmenting active-duty personnel by 3,800 by 1989 (GFM.S87)

20. Federal Civilian  
Employment

After remaining constant from 1987 through 1990, employment rises at 0.5 percent annual rate consistent with the long-term trend since 1960 (GFC.S87).

21. Tourism

Number of visitors to Alaska increases by 30,000 per year to over 1.3 million by 2010 (TRS.J85).

22. State Hydroelectric  
Projects

Construction employment from Alaska Power Authority projects includes several projects in Southcentral and Southeast Alaska, including Bradley Lake (SHP.F85) and (SHP.B86).

D. NATIONAL VARIABLE ASSUMPTIONS

1. U.S. Inflation Rate

Consumer prices rise at an annual rate of 3% in 1987, 4.6% from 1988 to 1992, and gradually increase to 5.4% in 1997. This assumption is consistent with petroleum price and revenue.

2. Real Average Weekly  
Earnings

Growth in real average weekly earnings averages 1 percent annually.

3. Real Per Capita Income

Growth in real per capita income averages 1.5 percent annually.

4. Unemployment Rate

Long-run rate of 6.5 percent.

E. REGIONAL ASSUMPTIONS

1. Population

Regional population growth allocated on the basis of employment growth.

2. Employment

No significant shifts in the location of support industries.

February 11, 1988

Dear Senators Arliss [REDACTED] Jan FAIKS, Richard HALFORD,  
and Tim KELLY,

I feel that your current rushed efforts to stop potential dumping of Anchorage and Alaska real estate properties are utterly foolish.

Please stop trying to buy them up to prevent "dumping".  
Please do not waste millions of dollars in a quasi-public agency that will never be able to liquidate its portfolio until the market has recovered.

Here is a better way to stabilize real estate markets:

A Tax to Promote Orderly Alaska  
Real Estate Markets

To promote orderly transfer of real estate properties or portfolios of real estate properties or portfolios of real estate properties, the State of Alaska establishes a market stabilization tax. For all real estate properties or financial portfolios of real estate properties selling at a price less than 80% of the existing outstanding loan balance on that property or portfolio of properties, the State of Alaska levies a tax on the buyer of that real estate property (or portfolio of real estate properties) equal to 80% of the outstanding mortgage loan balance on that real estate property (or portfolio) minus the sales price of the real estate property (or portfolio)

$(\text{Outstanding Loan Balance} \times 80\%) - \text{Sales Price}) = \text{Tax}$

This tax is designed to raise revenue and to prevent windfall profits and losses in the Alaskan real estate market during times of distress.

Sincerely yours,

*David L.T. Knudson*  
David L.T. Knudson (907-344-8423)  
7510 Chad  
Anchorage, AK 99518



**Peat Marwick**

Joseph E. Heintz  
Managing Partner

Peat Marwick Main & Co.  
601 West 5th Avenue, Suite 700  
Anchorage, AK 99501-2258

JAN 18 1988

January 8, 1988

*Presented  
to Gov. Cowper*

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 aggravating 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,

*Joseph E. Heintz*

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 the 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 circumstances. 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.).

Comment Draft 2/18/88

Comments should be addressed to: Gregg Erickson, senior economist, Division of Policy, P.O. Box AD, Juneau, AK 99811-0164 phone (907) 465-3568

## **The Recession, The Real Estate Crash, and Alaska's Economic Prospects**

### Introduction

Many Alaskans have been surprised by the severity of the current recession, and the speed with which it engulfed the state's economy. The collapse of the real estate market has been a shock, particularly in Anchorage. As long as anyone there can remember, investment in Anchorage real estate has been about as sure a thing as one could hope to find in this uncertain world. Granted, there have been ups and downs, but Anchorage real estate always held its value when the economy was doing poorly. When the economy was expanding -- during the Korean War, again after statehood, after the \$900 million North Slope lease sale in 1969, during the pipeline boom, and in the biggest boom of all in the early 1980s -- an investor could achieve extraordinary returns. In the intervals when the economy was stagnant, a real estate investor in Anchorage felt protected. "You never sold a piece of property for less than you paid for it," recalls John Rader, Anchorage lawyer and investor whose experience in Anchorage dates to the early 1950s. "It was almost a religious statement."

The benefits of real estate appreciation weren't just restricted to the very rich. Anyone wealthy enough to buy a home was able to play the game. The more a family borrowed to buy a home and the less of their own cash they used in the purchase, the faster their home equity would compound. Over the years, ordinary folks and major investors alike came to believe that there some rules of investing were better ignored. In Alaska, it always paid to be highly leveraged. In Alaska, the more an individual borrowed, the more an individual stood to make. And in Anchorage, one would never need to sell a piece of real estate for less than one paid for it.

No single event swept away this folklore, but it vanished nonetheless. In January 1986 Anchorage taxable real estate had an assessed value of \$13.9 billion, up 38 percent from two years earlier. In January 1988 municipal assessors estimated it at \$8.3 billion, down 41 percent in two years. Because a half billion in new construction was added to the tax rolls over the '86-'88



period, the average property in Anchorage took an even bigger beating.

This kind of collapse would spell trauma in any community, but because of Anchorage's demographics, growth pattern, and the policies of an activist state government, the distress has touched an especially large number of households. Anchorage's population is relatively young, and the town has been growing fast. In any other state most of the young families that dominate Anchorage's demographics would still be renting; a crash in real estate values would then be to their advantage since it would mean falling rents. In Alaska, though, the state has actively encouraged home ownership by providing mortgage credit at subsidized rates. The booming market made it look foolish not to participate, and in Anchorage about 29,000 households now owe about \$2.5 billion on subsidized residential mortgages.

According to Anchorage real estate broker Brooke Marston, these subsidized mortgages are now virtually all "underwater," e.g., the principal owed on the mortgage exceeds the market value of the home. The average family's equity in its home is one of its major repositories of savings. In Alaska, for most urban households, the value of that asset has been erased or become a net liability. The probability is that many now have negative net worth.

The purpose of this analysis is to examine these painful events in the broader context of Alaska's overall economic performance, addressing five questions: What caused the recession? When will it end? What sort of recovery can we expect? How will the real estate crash affect the recovery? And what are the economic policy options for state government?

### The Inevitable Recession

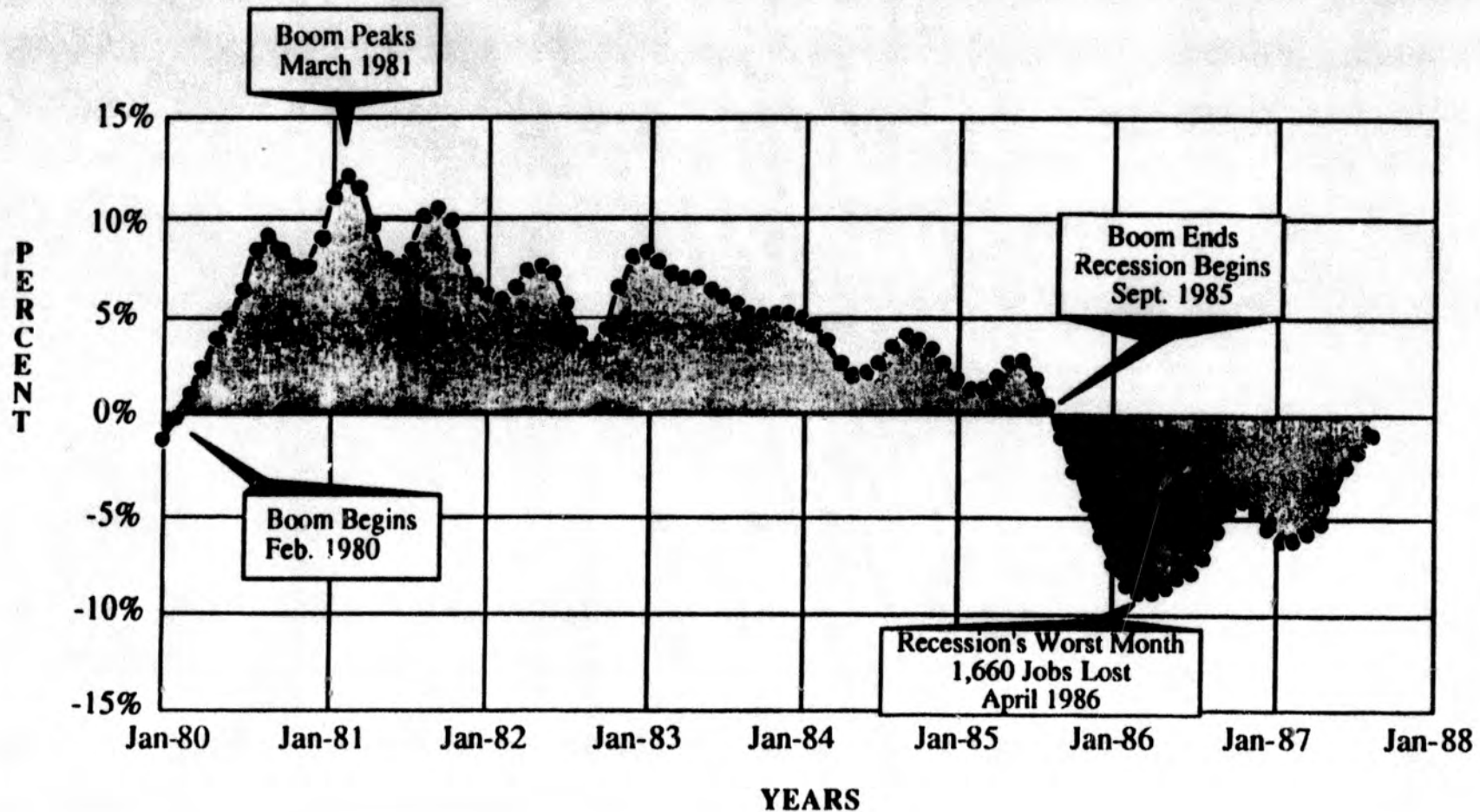
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. *When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.* Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith, economics professor at the University of Alaska's Institute of Social and Economic Research, measures the peak of the boom in early 1981, when jobs were being added at the phenomenal 12 percent annual rate.<sup>1</sup> The rate tapered off slowly after that, but since growth was still occurring the economy continued to get bigger. The economy stopped growing in September 1985, which is the date ISER's Goldsmith identifies as the beginning of the recession. The first phase of the recession was exceptionally sharp, but it was also short: the economy hit bottom in April 1986, just 6 months after the recession started; at that point

<sup>1</sup> Economists who keep track of the business cycle on a national basis generally define a recession as two consecutive quarters of falling gross national product. Because figures for gross *regional* product are more difficult to determine, regional economists generally use falling employment as their measure. Economists recognize that there is much more to the evaluation of economic performance than is told by either GNP or employment.

Figure 1

# Rates of Growth and Decline in Alaska Employment

Seasonally Adjusted Annual Rate



Source: Scott Goldsmith, ISER

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Division of Policy  
2/8/88

jobs were being lost at an 8.5 percent annual rate. Thereafter things improved, with the data from late 1987 showing jobs being lost at a 1 percent annual rate.<sup>2</sup>

The Alaska recession has not been typical. Regional recessions usually result from regional specialization, as in the manufacture of airplanes or the production of corn, combined with declining worldwide demand for the specialized product or service. The Seattle area specialized in large commercial jet transport aircraft. When demand for that product ebbed in the 1960s, Seattle lost 70,000 jobs in the space of a year. In the mid-1980s declining agricultural prices triggered a regional recession encompassing much of the Midwest. Here is the way the Scott Goldsmith, of the University of Alaska's Institute of Social and Economic Research (ISER) put it:

It is critically important to recognize that we brought this recession on ourselves, and that it was not primarily the result of weakness in the markets for the goods and services which Alaska sells to the rest of the world. This fact distinguishes our recession from those that have occurred in other regional economies.

The dramatic growth in state spending in the first years of this decade guaranteed that there would be an explosion of demand, and that private capital and labor would mobilize to meet that demand. Since much of this demand was from new public and private investment, demand was especially strong in the area of investment goods -- especially construction services and housing. Just to keep up with the growth in population and business required a Herculean effort. Few communities ever find themselves needing to add housing at a rate that would double the number of units in seven years. Since much of the growth was itself the result of new investment, there was a feedback loop. Economists call it an investment accelerator -- the expansion called forth investment which in turn accelerated the expansion. Unfortunately, the process also works in reverse. When growth stopped (notice we didn't say "reversed"), the Herculean effort would no longer be needed. And once a downturn was started, the feedback loop would cause it to feed on itself, to accelerate.

The only thing that could have prevented an eventual demand collapse was for state spending to keep growing. This would have required state revenue to keep growing. Some thought this a likely future, but it wasn't. When state spending stopped going up, the balloon would be punctured and the Alaska economy would deflate. The only questions remaining were when the recession would occur and how severe it would be.

This logic leads to an important conclusion. *The oil price collapse was not an important cause of the recession.* The oil price slide started in December 1985, three months *after* the recession began and two

<sup>2</sup> Some economists are less sanguine in their interpretation of the employment data, but most conclude that the recession, if not yet over, is in its final stages.



years after job losses started in the Alaska construction industry. Real (inflation adjusted) state spending stayed constant at \$6,800 per capita in FY 1983 and 1984, then increased to \$7,400 in FY 1985. The construction recession began in December 1984 (mid-FY 1985), notwithstanding the spending increase. With the beginning of FY 1986 spending fell to \$5,400 per capita.<sup>3</sup>

The FY 86 spending cut hurried along the recession which started three months later and made it more intense, but didn't cause it. The cause was that in 1981 the state of Alaska increased its spending at growth rates it could not reasonably hope to sustain, and adopted policies that encouraged private investment in housing, where the needs were only a temporary response to the inflated spending. *When state spending stopped growing, a recession resulted from falling demand for investment goods.* The collapse had its most severe consequences in construction and housing, precisely those areas where the state had the most success in its efforts to stimulate the economy.

The recession did not take Alaska's economists by surprise. Ten years ago, in March 1978, economist David Reaume and Goldsmith independently analyzed the effects of state spending growth expected with the beginning of Prudhoe oil production. Their analyses were contained in separate papers delivered to the annual meeting of the Western Economic Association. Both authors used the concept of "sustainable" spending (Reaume called it "sustainable revenue"). Both papers concluded that spending growth above the sustainable level would culminate in a self-inflicted regional recession.

Over the following decade this central conclusion was refined and reiterated by virtually every Alaska economist who wrote or spoke on the subject. Sometimes the conclusions were cloaked in mathematics or couched in eco-speak, but the warning was clear from the beginning. Here is how Dr. Reaume, phrased it ten years ago:

[I]ndependence from non-renewable resource revenue can be achieved ...if real state spending grows by no more than 2.5 percent per year...and if short term budget surpluses are carefully invested. A parallel conclusion is that ...the state faces a financial crisis by 1990 if it does not immediately restrict spending.

Despite the warnings, between fiscal 1979 and 1985, real (inflation adjusted) state spending rose at a compounded annual rate of 13.9 percent.<sup>4</sup>

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<sup>3</sup> The average U.S. state spends about \$1,700 per capita. All figures are unrestricted general funds expressed in constant 1987 dollars.

<sup>4</sup> The annual real per capita growth rate over the whole fiscal 1979-88 period was 3.7 percent.

## Recovery

If the economists are right, the end of Alaska's recession is imminent and doesn't depend on outside events like a rise in the price of zinc or corn or a change in the demand for Boeing airplanes. Alaska's recession will end when the decline in state spending ends and the excess capacity in areas like construction has, in the words of ISER director Lee Gorsuch, "been fully wrung out." Since most economists believe that both have already happened or are due soon, most also believe the job losses will end soon as well.

Precisely when will the recession end? Some economists believe it may already be over. A simple-minded extrapolation of Goldsmith's data (Figure 1) would suggest that employment actually started to grow between December and January. Chuck Caldwell, the state's chief labor economist, thinks this is possible: "I'm not going to make any predictions now, but when [the final seasonally adjusted numbers are in] we may well see that the economy started growing again around the first of the year." A Dittman Research Corporation survey of Railbelt business owners and managers conducted in January 1988 seems to provide some confirming evidence. Twenty-one percent of those responding said they planned to increase the number of employees in 1988, while only 12 percent said they planned to cut. Goldsmith himself predicts that the recession will end in the second half of 1988, a view shared by Reaume.

The pace of the recovery thereafter will be affected by any structural changes that occur in the Alaska economy, by changes in state spending, and by demand for Alaska's exports -- energy, fisheries products, wood products, visitor services, and defense services. The outlook for the state's export industries is generally favorable. Virtually all international economic experts foresee a protracted period -- perhaps 15 years -- during which foreigners will find U.S. dollars cheaper than at any time in recent history. For Alaska the change will mean growth. Consider tourism. The weakening dollar has reduced the cost in Japanese yen of an Alaska vacation, making it more affordable to the Japanese tourist. Moreover, Americans tourists will also be more likely to come to Alaska since the dollar cost of visiting foreign destinations, Alaska's competitors for tourist spending, will have increased. The same altered incentive structure will increase demand for Alaska minerals, wood and fisheries products.

In fishing, development of an on-shore bottomfish processing industry, discussed for years, has finally shown up this winter as real growth in employment. With one mine preparing for production and others well along in development, this time it appears that metal mining has finally started to grow. Federal spending is under pressure everywhere, but new military deployments to Alaska and increased federal park and wilderness management responsibilities in the state may mean an increasing overall federal presence in the economy. Petroleum employment is growing now,



reflecting the extraordinary profits available from further investments in already producing fields. The oil companies and state forecasters expect long-term increases in the real price of Alaska oil, but even if this doesn't materialize, labor required to produce existing fields will increase due to technical factors common to all declining fields even as production declines. The consensus among Alaska economists is that demand for the goods and services Alaska produces will grow, and that this growth will add new jobs to the Alaska economy at a rate of 1 percent or so annually, starting in 1988 or 1989 at the latest.

### Recession's Dividends

Scholars of economic development have noted that the great economic "leaps" recorded in history often come as the result of a crisis of one sort or another. The crisis brought about a reordering of society that was key to releasing suppressed opportunities and efficiencies. Alaska's recession isn't likely to spawn an economic miracle, but it is eroding two longtime barriers to Alaska's development -- high wages and inflated prices. Whatever one may feel about these changes -- and there are many who are hurt by them -- "[t]he bonus ...is an increase of competitiveness of our economy both in the production of basic commodities, and in the local production of support services," states Goldsmith.

The most immediate economic impact of falling real estate values is the boost it gives to the purchasing power of people that rent. Mike Breedlove, chief demographer for the Municipality of Anchorage, estimates that 31,000 Anchorage households live in rented quarters.<sup>5</sup> Assuming 2.4 persons per household, and if the average rental cost two years ago was \$200 per month per person, the roughly 40 percent drop in rents has added an average \$960 to the annual spendable incomes of these 75,000 people. This "renter's dividend" has thus increased Anchorage's spendable income by about \$72 million, and has had about the same economic impact as would result from hiring 1,400 new state employees in Anchorage.<sup>6</sup>

The recession hasn't been all bad for businesses either. Anchorage has about 7.8 million square feet of net rentable office space, and 5.4 million square feet of retail space. Assuming that 70 percent of that space is renter occupied and that monthly costs have declined by \$0.75 per square foot from their levels three years ago, the business renter dividend in Anchorage is over \$80 million per year, the equivalent of another 1,600 additional jobs in the Anchorage economy.

Declining real wages have hurt household purchasing power, but they've provided business with a powerful competitive boost, and many have taken

<sup>5</sup> The figures do not include renters living on military bases.

<sup>6</sup> The calculation assumes an average annual salary of \$35,000, and a personal income multiplier of 1.30.



advantage of it. Oil companies can now make money in fields like Kuparuk with wellhead prices as low as \$3.50 per barrel, and Alaska petroleum construction contractors are starting to bid fabrication work away from competitors in Oregon or Korea. Space rental and labor are the biggest cost items in many service and support sector businesses, so declines in these costs are particularly important to holding on to the recent growth in these sectors. Alaska retailers have also been helped by declining transportation charges. According to Greg Carr, of Carr's Quality Centers, these factors together contributed to narrowing the differential between grocery costs in Alaska and Seattle, a differential which he believes is now only about 3 percent. This has also produced a "dividend" for all residents.

The full ramifications of these changes cannot be predicted, but they suggest structural resilience and adaptability in the Alaska economy. These are good attributes for any economy, and especially valuable traits in a period of economic uncertainty.

### The Real Estate Crash

The economists haven't completely ignored the \$8 billion or so in Alaska real estate values lost over the past two years.<sup>7</sup> ISER economists recently studied the Anchorage housing market for the Alaska Housing Finance Corporation; they said to expect further declines in values, especially in Anchorage. Nevertheless, there is wide agreement among Alaska economists: *The real estate crash will tend to stimulate economic growth in Alaska.*

The reason is jobs. A bankrupt real estate investor has minimal impact on employment, but a bankrupt hardware store may signify a real loss in jobs. The real estate crash makes it hard for real estate investors, but it makes it easier on hardware store by lowering its costs. This mean the store is more competitive, which means more business and more jobs, so the real estate crash means employment is likely to grow. What if the investor also owns the hardware store? No problem -- the investor sells the business to cover his losses. The new owner pays more attention to the business, and with lower occupancy costs becomes more competitive. Because it means more jobs, the real estate crash is good for the Alaska economy, however difficult it may be for individuals.

Given this view, economists tend to be skeptical of schemes to rescue the economy by spending public money on real estate. Indeed, they express considerable skepticism about any *economic* justification for trying to prop up the real estate market. Part of this skepticism arises from growing doubts

<sup>7</sup> The loss in Anchorage private real property values has already been \$5 billion; making allowances for the losses elsewhere in the state, the likelihood of further losses, and losses of "going concern" values, \$8 to \$10 billion is a reasonable guess for the toll the recession has taken on the value of Alaska assets. Outside investors, mortgage insurance companies, and the federal deposit insurers have absorbed a major part of this, however.

concerning state government's institutional suitability for managing economic change in general. "It seems very clear to me now that politics and the kind of hard objective decision-making needed...will never be reconciled," writes Dr. Reaume, formerly chief economist in the state Department of Commerce and Economic Development and formerly a leading advocate of aggressive government action to achieve development. Professor Hayden Green's skepticism is more concrete: "Some of the same people who recommended we spend ourselves into this nightmare are now telling us that they can get us out by using the same concoction that made us sick as medicine to heal us...."

### The Dissenters

One expert who disagrees with this generally upbeat view of the economy is Scott Hawkins, formerly chief economist with Alaska Pacific Bank and now executive director of the Anchorage Economic Development Corporation. He believes that the real estate collapse and repercussions in the banking sector have "given Alaska a bad name" among outside banks that had been providing loans for Alaska development or were thinking of coming in. "It will be ten years before some of those [institutions] consider coming back to Alaska," Hawkins predicts. He argues that the resulting lack of capital is likely to cause retarded development.

Some economists are concerned that mergers will increase the share of the state's banking business controlled by the two or three largest institutions, possibly causing reduced competition in credit markets. Nevertheless economists apart from Hawkins discount "capital shortage" as a significant drag on development. Less money is flowing to the state now than two years ago, just as Hawkins suggests, and outside banks that thought they saw opportunities here, now probably see the issue differently. But it is important not to confuse cause and effect. Less money is being invested in Alaska because there are fewer opportunities for profitable investment, not the other way around. It is a situation that is not likely to change for several years, at least as far as the kind of lending that outside banks did during the boom. Their loans went largely to build shopping malls, offices, and homes, all of which are now in oversupply in urban Alaska. Meanwhile, deposits in Alaska banks have declined by less than 3 percent during the recession. Opportunities to make profitable loans, on the other hand, have declined much more significantly. The result is that *Alaska bankers are scrambling to find creditworthy loan customers*. "If someone with a serious business proposition comes through my door, I can assure you that person will have no difficulty in getting what he needs," said one Anchorage banker. Juneau economist and business consultant Eric McDowell agrees: "If I had a money-making idea that required capital, I could get it in an instant. The problem is that there aren't that many opportunities out there right



now."

Hayden Green, professor of real estate at the University of Alaska at Anchorage, is the other notable dissenter from the consensus view, though not on the capital shortage issue. Green argues that the collapse in property values will cause Alaskans to feel less wealthy, and this will cause them to reduce their consumption of goods and services, including goods and services provided by other Alaskans. Declining demand will mean more layoffs, thus propagating and prolonging the recession.

In eco-speak this is a "wealth effect." It will have some impact, but economists don't generally expect it to be significant. Goldsmith notes that the stock market crash wiped out \$1 trillion in wealth overnight and has had little apparent effect on consumption. In interviews with Anchorage retailers, Seattle consultant Dr. Bill Mundy found that "stores...that sell non-discretionary items (such as groceries) indicate that sales [in the first half of 1987] are just about the same as a year ago or off some, but not dramatically as one might expect." Mundy also notes that employment in stores selling general merchandise didn't decrease at all from March 1986 to March 1987, and that food store employment actually increased. According to Professor Lee Huskey, co-author of ISER's recent study of the housing market, if people do respond with reduced consumption, items foregone will be heavily weighted toward items with low "Alaskan" content such as Hawaiian vacations and Cadillacs. "The effect will be very marginal."

What about the arguments that a state funded entity, a so-called vulture fund, is needed to buy up distressed properties and keep them off the market? The "Phoenix Fund" proposed by Hawkins would be designed to prevent...

an unnecessary acceleration of small business bankruptcies [and] the additional failure of Alaska financial institutions, which would set off another cycle of falling real estate values, rising foreclosures, business bankruptcies, job losses, population outflow, etc.

The fund would be run by Hawkins' Anchorage Economic Development Corporation.

Fundamental to this line of thinking is the assumption that Alaska economic development will be hurt by falling property values. Economists, as noted earlier, simply don't buy this idea because they think falling property values will on balance increase jobs. "The real estate collapse is tough on those who invested in property," says McDowell, "but for the economy at large it is of little consequence." According to Reaume, "the current real estate situation may have major positive ramifications on the economy. A 'buy out,' on the other hand, could induce mistakes in the future. It's a bad idea." Department of Revenue economist Al Zangri is specific:

" [a] state program to reduce excess capacity in commercial real estate...will



... drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, this will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment period and delay the process of economic recovery."

Connie Yoshimura, an Anchorage real estate broker, points out the shakey technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

#### Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of economic experience. It is a reason for caution.

An event this encompassing could conceivably have non-economic effects that could feed back into the economic system in unanticipated ways. Anchorage real estate broker Chris Stephens has suggested that most severe effect of the market crash could be the loss of entrepreneurial talent. Most economists scoff at this idea. "Heck," ISER's Lee Huskey remarks, "lower costs are going to make it *more* likely entrepreneurs will succeed."

Arlon Tussing, a Seattle economist and frequent visitor, thinks the odds are good that the loss of confidence won't last very long or extend very deep into the fabric of Alaska society. So far, the evidence seems to favor this view. Anchorage's municipal demographer Michael Breedlove estimates that 59 percent of the households lost in Anchorage since 1985 have been male headed, non-family households, a category that accounts for only 18 percent of total households. Moreover, 80 percent of the population loss has been in 20-30 age group, and two-thirds of the loss is accounted for by males. These numbers don't suggest a broad-based exodus.

But what about the attitudes and intentions of those who remain? Population movements tend to lag changes in the economy, so a collapse of confidence could have already happened, with the resulting wave of out-migration only now beginning. As far as attitudes are concerned, the answers given by Dittman's Railbelt respondents don't reflect any sense of crisis: 44 percent say the economy will get better over the next two years,

compared with 16 percent who see things getting worse.

What about the 18 percent of Dittman's respondents who reported they were "very likely" or "quite likely" to leave Alaska within two years? For some observers the number was "shocking." Gregg Williams, the state's chief demographer, doesn't see it that way. "Every year, in good times and bad, about 15 percent of the people in Alaska leave. The [poll] results are about what I'd have expected." According to Dr. Williams, the number of people coming to Alaska is much more variable than the number leaving, and much more sensitive to economic conditions. Unfortunately, surveys of people already in Alaska, whether the results are "shocking" or "expected," tell nothing about the intentions of those not yet here. The guessing among experts like Breedlove and Williams is that population isn't in for any collapse in Anchorage, and certainly not in the balance of the state.

### Alaska's Policy Options

Many of the experts who are saying there is no economic justification for using public money to prop up the real estate market are also owners of homes and other real estate. A few of them suggest that there may be some *moral* justification for state government involvement. "After all," one asked rhetorically, "doesn't everyone agree that the state government was responsible for getting us into this?" But even those who see a moral basis for state intervention sense that whatever state government's guilt, indemnification of those who have taken losses would be beyond its means. And proposals to assist only a segment of the market, say the commercial real estate market, are hard to take seriously when so many others have also been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford.

Besides, excess capacity in investment goods and services (like construction) has dissipated, and it seems likely that the state will arrest the decline in public spending. If this happens, the recovery will occur regardless of what else the state does or does not do. That doesn't mean that prompt, informed government action would not save a lot of pain. Unfortunately, what the government should do, apart from not trying to corner the real estate market, is not nearly so clear. It would make sense to allow people to carry their negative equity along with them to a different house. Whether the public and private bureaucracies involved are able to handle these transactions remains to be seen. It doesn't make sense to have a moratorium on foreclosures. The rights of condominium associations may need to be strengthened. The policies and role of the state's lending agencies -- especially AHFC, need review. Millett Keller, an Anchorage business consultant, suggests that the real estate collapse provides Alaska communities with "opportunities to accomplish ... public sector projects at bargain rates," including acquisition of property for parks, greenbelts and rights-of-way for



future transportation facilities, assuming government can avoid carelessly mixing in subsidies and economic recovery. That may be an optimistic assumption, but Commerce and Economic Development Commissioner Tony Smith was surely on target when he testified that "we can't spend ourselves out of this one, we have to manage ourselves out of it."

### Borrowed Time

With management -- and a little luck -- the real estate crash will do no lasting damage to Alaska's economy. Years hence Alaskans may look back at the recession and post recession period as a time of renewal and opportunity. If so, it will probably be because Alaskans learned the lessons that this self-inflicted recession had to teach.

On this point, however, the returns are still to be counted. Alaska did cut its spending in FY 1985-88, but not enough to erase the fundamental imbalance that Drs. Goldsmith and Reaume first described ten years ago. In a speech early this year Goldsmith described the imbalance as a problem

which always takes a back seat to concerns which are more immediate or pressing, but it is the most pervasive issue we will face in the next decade. *In the long run the economy is still living on borrowed time.* We continue to artificially stimulate the economy by selling off the assets of the state -- our petroleum wealth. How we adjust to a sustainable level of government will affect us all as surely as this recession. [emphasis added]

Unless Alaska controls its public spending, the state will be buying a ticket to a rerun of its present recession. Showtime will be within the decade, and probably sooner.

Another old imbalance also remains. Alaska has developed a mature economy, but parts of rural Alaska have increasingly been left behind. Disparities in income, employment, educational success, health, and a host of other measures all are all widening. Some economists say that this is the kind of problem that economics shouldn't have much say in solving, but all agree that the growing disparities are already a drag on economic development *throughout* Alaska, and that these disparities will become an even greater burden in the future. Economic solutions that might work seem unacceptable on other grounds, and solutions acceptable on other grounds clearly don't work economically. It is a tough issue that won't be ignored.

Alaska's economist emeritus George Rogers wrote in 1962 of how many Alaskans subscribe to the view that economic forecasting "should be a projection of present hopes, that prediction should bolster self assurance. Forecasting in this view is only valid if it agrees with a popularly held dream of the future and makes its realization appear likely."

Today, economists' believe that the real estate collapse will not produce dangerous consequences for the economy as a whole. This view runs counter not to a popular hope, but to a popular fear. A lesson from the recession and



real estate crash may be that hopes and fears, like dreams, are better servants when they are firmly founded on a hardheaded respect for history.

#### Reference Notes (Incomplete)

If not otherwise cited, quotations are from personal conversations with the author.

Taxable Anchorage real estate values are from Phil Webber, municipal assessor's office, Municipality of Anchorage. Data on the number of Anchorage AHFC mortgages are from AHFC. State spending data are Division of Policy figures.

Goldsmith's seasonally adjusted employment figures have not been published, but are available from him or the author. Goldsmith's statement on the cause of the recession is from "Remarks to the Alaska Policy Forum," January 7, 1988.

The papers presented ten years ago to the Western Economic Association are "Fiscal Planning and the Long-run Growth Pattern of Resource Based Open Economies," by Goldsmith, and "Alaska Financial Planning and the Permanent Fund," by Reaume, both dated March 1978.

For more on Caldwell's and his Department of Labor research staff's view on the end of the recession, see Edward Eboch, "Alaska's Employment Scene," *Alaska Economic Trends* January 1988. Reaume's recovery estimate is found in his article, "One More Year of Employment Decline," *Alaska Construction and Oil Report*, January 1988. He thinks despite the expected upturn in late 1988, average employment figures for the year will be down. Goldsmith predictions are found in his Alaska Policy Forum remarks. Also see "Can State Spending Speed Alaska's Economic Recovery," December 8, 1988, by Goldsmith and Gorsuch, research memorandum prepared for Governor Cow

The Dittman survey data is found in *Railbelt Economic Assessment Survey*, January 1988, by Dittman Research Corp. The Anchorage demographic information is from the *1987 Anchorage Population Profile*, December 1987, prepared by Breedlove, et al, in the Community Planning Department, Municipality of Anchorage. It is an extraordinarily useful document.

Figures on total available office space figures are from Norman Rokeberg, Jack White Realty. Retail space figures are from Alaska Valuation Services, Fred Ferrara, president, as provided by Connie Yoshimura in testimony to the trustees of the Alaska Permanent Fund, February 10, 1988.

The Greg Carr quotation is from an Associated Press story datelined Fairbanks, December 2, 1987.

OPTIONS  
TO IMPROVE THE  
ALASKAN ECONOMY

DAR/JAN 88

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 partly fund the capitalization.

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

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

# MEMORANDUM

State of Alaska

TO: Milt Barker  
Deputy Commissioner, Treasury  
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright *VW*  
Chief of Research  
Department of Revenue

SUBJECT: Commercial Real Estate  
Subsidy

FROM: Alfred G. Zangri *AGZ*  
Economist

Conclusion: Recent proposals to have the State purchase existing 'excess supply' of commercial real estate will likely have the following impacts:

1. Could cost the State something in the neighborhood of \$115 million to \$165 million if all current nonperforming and foreclosed property is covered;

2. Force rents higher than would have been in the absence of such a program which in turn will;

3. - decrease the level of business activity,  
- increase layoffs,  
- decrease aggregate demand and  
- decrease aggregate income

more they would have been in the absence of such a program while at the same time sending signals to the market which will;

4. Provide incentives for additional investment in commercial real estate in the face of existing excess supply;

5. Create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own bail out program which will in turn;

6. Further delay the adjustment process and delay the process of economic recovery;

7. Bail out a few banks rather than nonperforming building owners;

8. Result in a tax leakage to the federal government if commercial real estate investors tend to have a higher than average income;

9. Subsidize owners of commercial real estate and banks at the expense of the economy and the rest of the citizens of the state;



10. Result in leakage to out-of-state owners who will also benefit from the subsidy;

11. Result in additional leakage as the funds used in the program are unlikely to be reinvested in the state due to excess capacity;

12. Replace the market price with a state bureaucracy in making commercial real estate investment and allocation decisions with the resulting fallibility, inefficiency and opportunity for unequal treatment.

Discussion: This memo discusses the impact that the recently proposed commercial real estate excess capacity purchase program will have on the State economy. The primary focus of the discussion will be whether the economy is likely to be helped or hurt by the program. As a part of this discussion it is necessary to examine the distribution of gains and losses throughout the economy resulting from such a program. However, the central question is not the equity of the distribution. Instead, the question is whether the overall net impact of the program is to help or hurt the State economy.

Before assessing the impact of these proposals we must first examine the way the commercial real estate market works.

There are two types of operators in the market for commercial real estate:

1. The Users - these are businesses or professionals that rent or own commercial space for their use in day-to-day business activities.

2. The Investor - these are individuals or businesses that own commercial real estate for the revenue stream (rents and/or capital gains) the space yields.

The level of aggregate demand for goods and services determines the rental value and in turn the market value of commercial real estate. Investors' demand for commercial real estate is derived from the future stream of rents that the owner expects to receive. Users demand is derived from the profits they expect to receive from its use which are in turn derived from consumers' demand for the product or service offered by the business occupying the commercial space.

The problem that has occurred in the Alaskan economy is that the overall level of aggregate demand has fallen below the level anticipated during the building boom because there are fewer people than anticipated and those people are spending less. The result of this fall in aggregate demand is that business profitability has fallen, increasing both business failures and the number of marginal businesses. This in turn has reduced the level of demand for commercial space and created 'excess supply' in the commercial real estate market (as well as most, if not all, other markets).

We should realize, however, that 'excess supply' is a price dependent concept. This means that as aggregate demand falls and the general level of business activity declines users of commercial space have a demand for less space because some have gone out of business while others have found it necessary to reduce costs in order to stay in business. Part of this reduction in costs will be accomplished by reducing the rent they are willing to pay. This will cause these businesses to seek rent reductions from their existing landlords and/or move to less expensive or smaller quarters. Rents for all commercial space will begin to fall as owners of commercial space try to bring vacancy factors back to prior levels. Even businesses that are not feeling pinched will find that they can now rent larger and/or higher quality space at reduced rates.

Simply stated, excess capacity exists when prices are too high to clear the market. As prices fall the excess capacity will tend to be absorbed back into the economy. Two factors must be noted about this reabsorption: First, as rents fall and businesses tend to move up to higher quality space, vacancy factors in lower quality (older, less luxurious) space will tend to be higher than in higher quality (newer, more luxurious) commercial space. This occurs because the more marginal or risky or newer businesses will tend to locate in this cheaper space thus creating a higher turnover. This will in turn tend to increase the rent differential between lower quality and higher quality space. This process will be reversed as the economy recovers -- a fact that any investor in lower quality properties realizes.

The second factor to note about the eventual reabsorption of 'excess capacity' is that the adjustment period will not be fast. It may well take a number of years. There are some indications that the adjustment is well under way (see for example the Anchorage Office Space Market Analysis Summary - midyear 1987 which shows an increasing vacancy factor for lower quality space and a slowing vacancy factor for higher quality space).

On the other hand, as rents fall it is likely that leveraged commercial space investors will be unable to avoid increasingly negative cash flows which may cause additional buildings to be sold at losses. It is possible that the capitalized value of some commercial real estate has not only fallen below the level of existing financing but also below current replacement cost.

From the above discussion we can identify which people will benefit and which will lose from a general decline in commercial real estate rents. Those that stand to gain from decreased rents are

- businesses that use rented commercial space;
- customers of businesses that use rented commercial space;
- employees of businesses that use rented commercial space;
- investors in businesses that use rented commercial space.



Those that stand to lose from falling commercial space rents are

- owners of commercial space for rent;
- businesses that operate from owned commercial space;
- employees of businesses operating from owned commercial space;
- investors in businesses operating from owned commercial space;
- investors in banks that have inadequate reserves to cover nonperforming commercial real estate loans.

It is also possible to examine the likely impact of proposed solutions to the 'excess capacity' problem. First, if the State buys distressed properties at market prices and rents these properties at market prices there is no effect on the market. Rents will be driven down to the same level they would have reached in the absence of the State purchase. However, since this does nothing to relieve the perceived 'excess capacity' problem, the proposals put forward have been to purchase these properties and withhold them from the market either temporarily, by keeping them vacant, or permanently by bulldozing them. In either case this action on the part of the State will result in a subsidy to the owners of non-State owned buildings. This subsidy will occur because rents will be kept higher than they would have been in the absence of the State program. The result remains unchanged even if aggregate demand falls so far that some buildings cannot be sold at any price: the ghost town effect. Even in this case, purchase for land value or any other price by the State represents a subsidy to other building owners. Purchase and subsequent bulldozing by the State represents destruction of wealth.

This subsidy is directly paid for by:

- businesses that use rented commercial space;
- customers of businesses that use rented commercial space;
- employees of businesses that use rented commercial space;
- investors in businesses that use rented commercial space;

through higher rents, higher prices and/or fewer products available, fewer jobs available and decreased returns on their investments.

The subsidy is also indirectly paid for by all the citizens of the state through the opportunity cost of the program. This cost is the value of the lost benefits of the other programs that could have been funded with the revenues spent on the purchase of commercial real estate. Opportunity costs arise because the State has a limited amount of money to spend. Any money spent to purchase commercial real estate reduces the amount available to spend on other programs. The foregone benefits of these lost or reduced programs are, therefore a cost associated with the proposal.

One estimate of the potential size of this opportunity cost is 25% to 35% of the \$292.3 million in past due & non-accruing commercial



real estate loans plus the 165.2 million in foreclosed real estate owned by banks identified by the Governor's Office of Management and Budget (1/4/88)<sup>1</sup>. To place these numbers into perspective consider that this \$1.7 million to \$165 million represents two to three times the FY88 authorization to the Municipal Assistance program<sup>2</sup>. State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to Federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment

period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all the other citizens of the State.

#### FOOTNOTES

1. Memorandum to Mary Holloran. "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso. Table 1. Jan. 29, 1988.
2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.



STATE OF ALASKA  
**DEPARTMENT OF REVENUE**

OFFICE OF THE COMMISSIONER

*Indult*  
STEVE COWPER, GOVERNOR

P.O. BOX 5  
JUNEAU, ALASKA 99811-0400  
PHONE: (907) 465-2300

February 19, 1988

The Honorable Max F. Gruenberg, Jr.  
Chairman, Joint Committee on Economic Recovery  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Gruenberg:

At the meeting of the Joint Economic Recovery Committee Thursday February 18, you asked whether I believed the legislature should consider social responsibilities as opposed to only considering what to do about the contraction that has occurred in the Alaska economy.

My answer was that I thought of the word "economic" as encompassing both the financial issues and the social and political issues.

I realize that may have been a confusing answer. Perhaps this will make it more clear.

State spending was the driving force behind the recent "oil boom." If we had spent at lower levels, and had much more moderate growth, then the adjustment would have been much easier. Hundreds of condos would not have been built, and would not stand empty today.

As pointed out by Erickson, and other economists, letting the real estate decline (or market correction) settle out will result in lower costs, and a quick growth rate because of that.

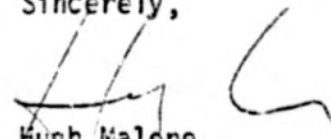
If the state intervenes, we will bias normal investment decisions, and make private dollars less productive than they otherwise would be. Economic recovery will be slowed, and the uncertainty and hardship will be prolonged. (Of course, if we could return spending to the per capita level of a few years ago, and keep it there, we will still be in fat city. But we can not - although we can squander our limited revenue).

Therefore, I think the most socially, politically responsible, and useful, thing we can do is to let the market correct itself.

The Honorable Max F. Gruenberg, Jr.  
February 19, 1988  
Page

Intervening is not social responsibility. At best, it is tinkering. At worst, it will waste what money we have and create an enormous sense of unfairness. I am not suggesting we let anyone starve, or freeze in the dark. I am suggesting we foster a private economy.

Sincerely,



Hugh Malone  
Commissioner of Revenue

HM:m11  
88-46

cc: Members, Joint Committee on Economic Recovery

**FACT SHEET**  
**SOUTHWEST PLAN**

**OBJECTIVE:** Achieve viability of Texas thrifts through consolidation. Reduce cost of funds in Texas and ultimately nationwide.

**STRATEGY:** Consolidate 143 ailing (104 insolvent) out of 281 thrifts currently operating in Texas, so that surviving viable institutions number between 160 and 180. Approximately 70 percent of troubled institutions have signed consent-to-merge agreements.

Reduce number of branches from more than 1800 to nearly 1400.

Divide Texas into 14 thrift regions and ensure that each region has appropriate service to meet needs of its people.

**RESULTS:** Potential size of surviving thrifts

Local.....Up to \$800 million  
Regional.....\$800 million to \$2.5 billion  
Multi-regional.....More than \$2.5 billion  
Statewide.....None

Estimated Size of all Texas thrifts before and after consolidation

|                           | <u>Pre-plan</u> | <u>Post-plan</u> |
|---------------------------|-----------------|------------------|
| 0-\$100 million           | 45%             | 53%              |
| \$100-\$500 million       | 39%             | 29%              |
| \$500 million-\$1 billion | 8%              | 6%               |
| More than \$1 billion     | 8%              | 12%              |

Eliminate 1987 loss of \$2.2 billion of all Texas thrifts at end of first year of consolidation.

**COST TO FSLIC:** Estimated for implementation of strategy, \$6 to \$7 billion, with funds derived from FSLIC recapitalization program, assessments of the thrift industry and other sources.

FSLIC will conserve cash and extend impact of its funds by issuing FSLIC notes and using assets as collateral. FSLIC expects to recoup part of its investment in troubled thrifts by sharing in profits of consolidated institutions and/or holding an equity position in them. FSLIC's equity position will not be used to control an institution.

**OTHER CAPITAL:** \$1 billion in new capital could be available from potential acquirers and/or institutions that could participate in consolidations. Additional capital will be available as the plan moves forward.



**FEDERAL HOME LOAN BANK BOARD****Resolution No.****Dated:**

- Whereas** The Federal Home Loan Bank Board ("Board") is engaged in the development of a plan for solving the multibillion dollar problem of thrift institutions in the Board's Ninth District, comprised of the states of Texas, Mississippi, Louisiana, Arkansas and New Mexico, called the "Southwest Plan";
- Whereas** Representatives of the thrift industry in the Southwest, together with their trade associations, have urged consolidation as a means of reducing excessive operating costs and expenses;
- Whereas** The Board has placed a major priority on resolving thrift problems in Texas in recognition of the fact that thrift troubles in that state constitute a major fraction of all thrift problems nationwide;
- Whereas** The Board believes that a solution of the Texas problem will aid the Board's efforts to solve thrift problems throughout the nation and aid in the reduction of the cost of funds to all institutions;
- Whereas** Consolidation of the Federal Savings and Loan Insurance Corporation's ("FSLIC's") insolvent institutions together with some combination of healthy institutions and capital infusions to produce viable thrifts would achieve various benefits, including:
- Significant savings in operating expenses;
  - Management teams capable of providing the leadership and controls necessary to achieve viability;
  - The ability to permit higher cost deposits to be reduced by cash flow from investments supported by lower cost deposits;

- Merging within one institution complex financial investments that currently are located in several institutions, with attendant unnecessary costs;
- Attract capital to a market that currently has too many inefficiencies to produce a reasonable return on new capital;

Whereas The Board initiated an analysis of possible means to reduce operating and deposit costs in support of the Southwest Plan, thereby enhancing confidence in the thrift industry, with the following directions:

- Retain a competitive environment within the district, preserving the basic nature of its thrift industry, while delivering financial service to customers efficiently and effectively;
- Reduce or eliminate duplications and redundancies in the financial services industry, which currently are adding to operating costs;
- Identify the most capable management to implement the plan;
- Provide a mechanism for reducing the expenses and controlling losses in troubled assets;
- The efficient use of FSLIC resources in resolving problems;
- Shares of the future profits of assisted institutions for FSLIC;

Whereas The analysis has reported, in pertinent part, that:

- Consolidation would provide for an integrated approach to the existing insolvencies rather than resolving cases less effectively on a case-by-case basis;
- Fourteen geographical regions can be identified in Texas; consolidation should occur within the framework of these geographical market areas, some of which are local, some regional, and some multiregional (but not statewide);

- Consolidation could significantly reduce the number of savings and loans and deposit-gathering offices within those markets;
- Consolidation should provide immediate operational savings, exclusive of conversion costs, of several hundred million dollars per year;
- Additional, even greater, savings may be achieved through resulting reductions in the cost of funds to insured institutions throughout the Ninth District;
- Further savings are possible through the consolidation of shared complex financial assets in a single institution, eliminating or simplifying management costs and litigation;
- The key to these savings, as well as to reducing the long-run cost to the FSLIC, is the identification and selection of strong management;
- By retaining an interest in the future profits of assisted institutions and their assets, the FSLIC stands to share in the savings that result from the plan; and

Whereas The Board concludes that the resources of the FSLIC are sufficient to support a strategy of consolidation if pursued in accordance with the analysis considered by the Board.

Now therefore be it resolved that:

The strategy of consolidation should be pursued as part of the Board's Southwest Plan and its overall efforts to restore the financial health of the thrift industry and preserve the financial health of the FSLIC;

The FSLIC, in consultation with the Board's Office of Regulatory Policy, Oversight and Supervision, the Federal Home Loan Bank of Dallas, and other appropriate state and federal regulatory agencies shall:



- Within the limits of the Board's authority, identify and foster the retention of the most capable management in the consolidated institutions, with a view toward both satisfying the institutions' immediate needs for capable management and minimizing the long term costs of the FSLIC;
- Develop such a strategy that will consider the multiregional nature of the Ninth District in general and the State of Texas more specifically;
- Provide a procedure that will permit new capital to be introduced into consolidated local, regional, and multiregional institutions within Texas on a cost-effective basis;
- Promote fairness by providing potential investors and managers the opportunity to compete for the right to participate in the plan on an equitable basis, to the ultimate benefit of the FSLIC fund;
- Foster the consolidation of complex financial assets in which conflicts among participants are raising costs;
- Provide necessary procedures and staffing for continuing a strategy of consolidation; and
- Proceed with implementation in as expeditious a manner as possible.

By the Federal Home Loan Bank Board

## KEY PARAMETERS

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- Preserve basic structure and competition of thrift industry.
- Eliminate duplication and over-branching

# **GUIDELINES USED IN DEVELOPING SOUTHWEST PLAN**

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- **Retain competitive environment within district, preserving basic nature of thrift industry, while delivering financial service to customers efficiently and effectively.**
- **Reduce or eliminate duplications and redundancies in financial services industry, which currently are adding to operating costs.**
- **Identify most capable management to implement plan.**
- **Provide mechanism for reducing expenses and controlling losses in troubled assets.**
- **Minimize use of cash in resolving problems.**
- **Gain future share of profits from assisted institutions for FSLIC**



## POTENTIAL RESULTING THRIFTS (ASSETS)

---

LOCAL . . . . . UP TO \$800 MILLION

REGIONAL . . . . . \$800 MILLION - \$2.5 BILLION

MULTI-REGIONAL . . . . . MORE THAN \$2.5 BILLION

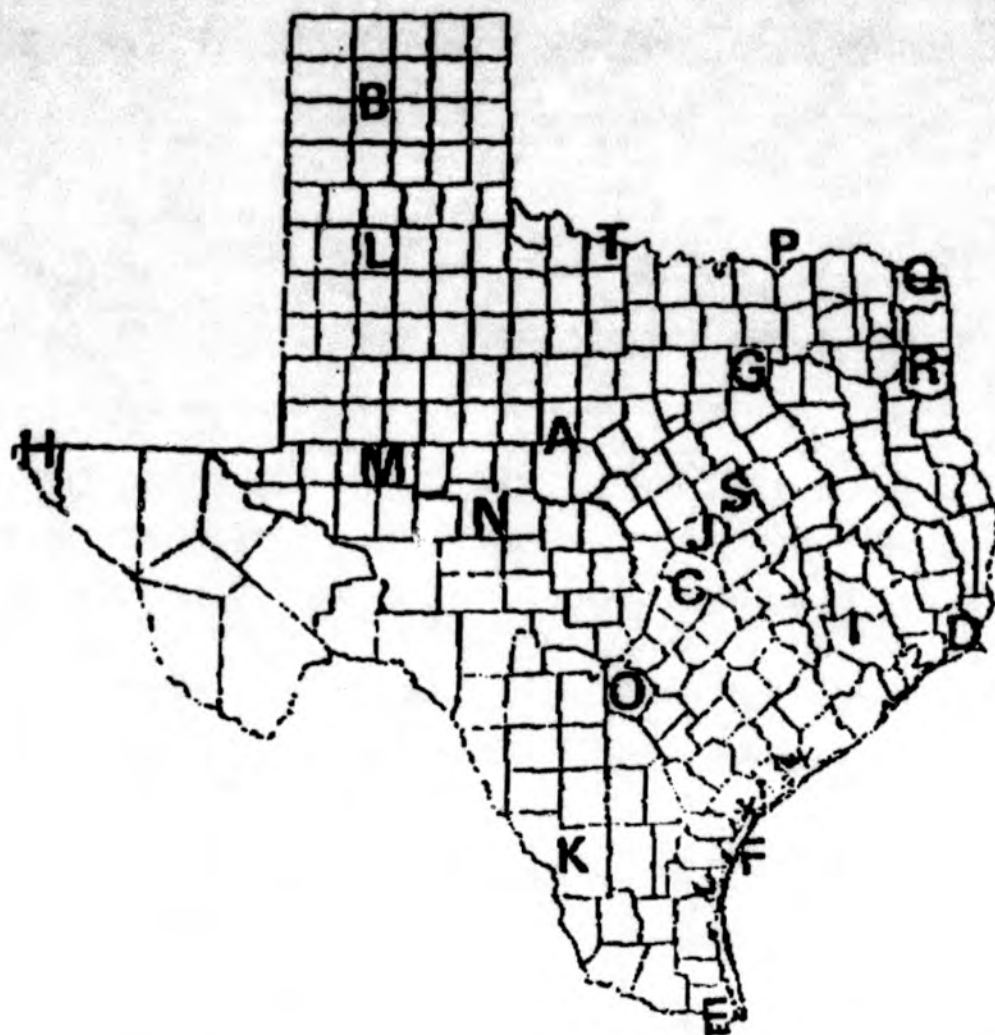
STATEWIDE . . . . . NONE

## SIZE OF THRIFTS

---

|                             | <u>PRE-PLAN</u> | <u>POST-PLAN</u> |
|-----------------------------|-----------------|------------------|
| 0 - \$100 MILLION           | 45%             | 53%              |
| \$100 - \$500 MILION        | 39%             | 29%              |
| \$500 MILLION - \$1 BILLION | 8%              | 6%               |
| OVER \$1 BILLION            | 8%              | 12%              |

# TEXAS MAJOR METRO AREAS IN PROPOSED REGIONS



|   | MSA                   | IN REGION           |
|---|-----------------------|---------------------|
| A | ABILENE               | 14                  |
| B | AMARILLO              | 12                  |
| C | AUSTIN                | 8, 10               |
| D | BEAUMONT- PORT ARTHUR | 4, 5, 6             |
| E | BROWNSVILLE- McALLEN  | 9, 11               |
| F | CORPUS CHRISTIE       | 4, 7, 8, 9          |
| G | DALLAS/<br>FORT WORTH | 1, 2, 3<br>2, 3, 14 |
| H | EL PASO               | 11                  |
| I | HOUSTON- GALVESTON    | 4, 5                |
| J | KILLEEN-TEMPE         | 8                   |
| K | LAREDO                | 9, 11               |
| L | LUBBOCK               | 12                  |
| M | MIDLAND- ODESSA       | 13                  |
| N | SAN ANGELO            | 13                  |
| O | SAN ANTONIO           | 8, 10               |
| P | SHERMAN-DENTON        | 3                   |
| Q | TEXARKANA             | 3                   |
| R | TYLER- LONGVIEW       | 3                   |
| S | WACO                  | 8, 14               |
| T | WICHITA FALLS         | 14                  |



# TEXAS MAJOR METRO AREAS IN PROPOSED REGIONS

---

| <u>REGION</u> | <u>ANCHOR AREA</u>                                                                   | <u>GEOGRAPHIC DESCRIPTION</u>        |
|---------------|--------------------------------------------------------------------------------------|--------------------------------------|
| 1             | DALLAS                                                                               | DALLAS ONLY                          |
| 2             | DALLAS/FORT WORTH                                                                    | THE METROPLEX                        |
| 3             | DALLAS TO TEXARKANA<br>INCLUDING FT. WORTH, TYLER, LONGVIEW,<br>SHERMAN DENTON, ETC. | (NORTH AND EAST TEXAS)               |
| 4             | HOUSTON, GALVESTON, BEAUMONT,<br>ORANGE, CORPUS CHRISTI                              | (TEXAS COAST)                        |
| 5             | HOUSTON, GALVESTON                                                                   | (TEXAS COAST)                        |
| 6             | BEAUMONT, ORANGE                                                                     | (TEXAS COAST)                        |
| 7             | CORPUS CHRISTI                                                                       | (TEXAS COAST)                        |
| 8             | SAN ANTONIO, AUSTIN, CORPUS CHRISTI,<br>KILLEEN, BRADY, WACO                         | (CENTRAL TEXAS AND THE HILL COUNTRY) |
| 9             | CORPUS CHRISTI, RIO GRANDE VALLEY,<br>LAREDO                                         | (SOUTHERN TIP OF TEXAS)              |
| 10            | SAN ANTONIO, AUSTIN                                                                  | (CENTRAL TEXAS)                      |
| 11            | EL PASO TO BROWNSVILLE                                                               | (ENTIRE RIO GRANDE BORDER)           |
| 12            | LUBBOCK, AMARILLO                                                                    | (PANHANDLE AND PLAINS)               |
| 13            | MIDLAND, ODESSA, SAN ANGELO                                                          | (WEST TEXAS)                         |
| 14            | ABILENE, WICHITA FALLS, FT. WORTH,<br>WACO                                           | (NORTH AND WEST CENTRAL TEXAS)       |

**Non-viable thrifts should be  
"packaged" with creative FSLIC  
financial and regulatory assistance  
to create marketable entities.**

# CONCLUSION

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- Consolidation Works
- FSLIC Can Afford
- Thrift Benefit Nationwide



## REQUESTS FOR STATEMENTS OF INTEREST

The Federal Savings and Loan Insurance Corporation ("FSLIC"), an agency of the Federal Home Loan Bank Board, is considering a plan of action for the Southwest regional restructuring of savings institutions. The FSLIC may provide economic and non-economic assistance where it deems appropriate to assist in the restructuring of involved institutions. The purpose of the Southwest regional restructuring is to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations while preserving adequate services, competition and basic structure in each locale.

The FSLIC is requesting statements of interest from parties desirous of participating in the Southwest regional restructuring. The FSLIC will consider responses from principals only. A Request for Proposal ("R.F.P.") may be requested from:

Coordinator  
Southwest Regional Development  
FSLIC  
1700 G Street, N.W.  
Washington, D.C. 20006

Indications of interest should clearly state the following:

1. The asset size of the savings institution(s) you are contemplating to acquire.
2. Preliminary estimates of the amount, type and source of capital you are willing to infuse into the acquired entity or entities.
3. The region(s) or local area(s) in which you may be interested, unless the party has no geographic constraints.
4. The general characteristics of the types of institutions in which you are most interested.

The FSLIC is seeking interest for three types of acquisitions:

1. Local institutions limiting service to their local communities and having an asset base of up to \$800 million.
2. Regional institutions serving the area of the state in which they are located and having assets of \$800 million to \$2.5 billion.
3. Multi-regionals serving more than one region and having assets in excess of \$2.5 billion.

Interested parties will be required to submit confidential biographical and financial information in order to be pre-screened to receive additional information regarding institutions that may be

involved in the restructuring. The required information for the pre-screening process will be provided to those who have indicated an interest.

The FSLIC, in consultation with the Office of Regulatory, Policy, Oversight and Supervision and the Federal Home Loan Bank of Dallas, will determine the acceptability of those seeking to be pre-screened. Such determinations will consider:

- o The financial strength, ability, amount and type of capital that the interested party will provide when pursuing consolidation within the targeted area;
- o The strength of proposed management;
- o Applications for acquisitions with the Southwest submitted within the last 12 months to either the Dallas Bank or FSLIC;
- o A key consideration in any of FSLIC negotiations for assisted acquisitions or mergers will be the preservation of as much of the basic structure and preservation of competition in each locale while restructuring these institutions to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations.

FSLIC will provide to any interested party guidelines for equity sharing by FSLIC. Such guidelines will be subject to change without notice.

If requested, the R.F.P. will offer, on a confidential basis, financial summaries and projections of combinations available within market areas. Such information will also offer preliminary projections of potential branch closures, operating expenses reductions,...

Institutions not under a Consent to Merge Agreement will be notified if a proposal has been made affecting them. If they decline to be considered as a part of an approved plan of consolidation their Directors will be so notified by FSLIC, together with an estimate of increased costs to the plan and to their own operation.

FSLIC will approach some institutions that are not under a Consent to Merger Agreement and that appear to be good candidates and encourage them to submit proposals.

Questions regarding the R.F.P. should be directed to the coordinator listed above or to \_\_\_\_\_ at the Federal Home Loan Bank of Dallas.

Statements of interest should be submitted at your earliest convenience but no later than \_\_\_\_\_.

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## **ADDENDUM**

### **PRE-SCREENING REQUIREMENTS**

The following information must be submitted in order to ascertain the identity and legal form of a potential acquirer and to develop a basis for a preliminary financial evaluation:

#### **FINANCIAL INSTITUTIONS**

Financial Institutions that wish to be included on the National Marketing List are required to submit the following information:

On the institution's letterhead, a statement indicating their interest to be placed on the National Marketing List;

A statement detailing geographic and asset preferences; plus

Name, address and telephone number of the contact person to whom marketing information should be addressed.

Submission of this information will allow for inclusion on the FSLIC's National Marketing List. However, invitation(s) to submit a proposal is subject to supervisory clearance from an institution's primary regulator. The general parameter used to determine those financial institutions to be invited is twice the asset size of the target institution. Exceptions to the general parameter must be coordinated with the institution's primary regulator and the FSLIC.

#### **INDIVIDUAL INVESTORS**

A completed copy of the Investor's Information Form and the Confidential Biographical and Financial Report (FHLBB Form 1393) or a signed personal financial statement with supporting schedules detailing assets and liabilities.

Executed Affidavit that the information supplied is true and accurate.

Executed Certification regarding criminal and civil litigation.

A statement indicating business/financial background and/or management resources that will be made available for the acquired institution.

Additional information may be required in the course of the pre-screening process.



ADDENDUM: Page 2

COMPANIES (CORPORATIONS, PARTNERSHIPS, ETC.)

A copy of the company's annual report to shareholders for the last two years and the most recent quarterly statement (consolidated when appropriate).

1934 Act Reporting Corporations must also provide Forms 10-K, plus the recent 10-Q and proxy statements.

A statement that the financial information supplied is true and accurate.

A statement indicating the company's business/financial capabilities and management resources that will be made available for the acquired institution.

In addition, principals of non-publicly traded corporations must submit those items listed under the Individual Investors section for each principal involved in the transaction.

Note: All prospective acquirors are subject to credit and background checks. Once the pre-screening has been completed, you will be notified by the Marketing Section of the Mergers and Acquisitions Division/FSLIC.

REQUIREMENTS FOR CORPORATE AND PRIVATE INVESTORS TENDERING A PROPOSAL

In order for the FSLIC to proceed with an evaluation of a proposal tendered by a private or corporate investor, the offeror is required to submit the following additional information:

- 1) Statement as to the amount and source of capital to be provided.
- 2) Adequate evidence that the capital is available, e.g., letter of credit, commitment letter, subscription agreements, escrow verification, etc.

For those parties seeking to infuse non-cash capital, especially where no readily discernible market exists, please provide detailed information regarding the type of assets, the fair market value and the method of valuation used. Additional information may be required.

This information must be submitted no later than the submission deadline for receipt of proposals on this institution.

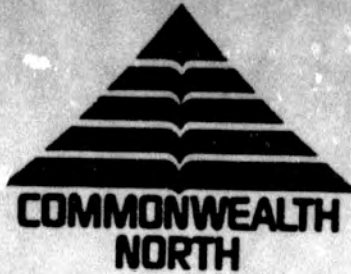
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**ADDENDUM: Page 3**

The FHLBB/FSLIC reserves the right to reject an offeror's proposal based upon on inadequate demonstration of financial capability, inadequate management experience/depth or other factors which would impair the restoration of the savings institution to viability.

Please direct Client Clearance Pre-Screening questions and information to:

Mr. Thomas L. Batties  
Marketing Director  
Mergers and Acquisitions Division  
1700 G Street, N.W.  
Washington, D.C. 20552  
(202) 254-2593



EMBARGOED UNTIL

FEBRUARY 23, 1988 7 AM

PRESS RELEASE

The annual earnings from the Permanent Fund, after dividends have been distributed to all Alaskans, can and should be used as a positive, counter-cyclical force in the Alaska economy. So says a report released today by Commonwealth North, a bi-partisan organization of community leaders who study public policy issues affecting Alaska and its future.

"The use of Permanent Fund earnings is a sensitive and easily misunderstood issue," said Dave Chatfield, Chairman of Commonwealth North's Permanent Fund Committee. "The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act. As a result, the central question has remained unanswered: What are we saving this money for?"



The committee recommends that when statewide 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 added to the principal of the Permanent Fund for "inflation-proofing".

Comparing this approach to the way the Federal Reserve Board uses monetary policy to control inflation and combat recession, Chatfield said that Alaska's Permanent Fund earnings could play an equally important and significant role in Alaska through fiscal or spending policy.

"Our aim is to help level out the sharp peaks and valleys of Alaska's historic economic cycle," said Chatfield. "Used as we have suggested in this report, the Permanent Fund earnings can help reduce the dramatic fluctuations."

The committee endorsed the annual dividend program as beneficial and opposed using Permanent Fund earnings for state government operations except in dire emergencies. It also recommended that a portion of the \$516 million currently in the Permanent Fund's Earnings Reserve Account be set aside to establish an Alaska Development Fund.

This fund would help provide financing for the construction of major, revenue-generating, in-state investments which would help expand and diversify the Alaska economy.

To research and determine the feasibility of such projects, Commonwealth North urges that the Alaska Legislature establish an Alaska Development Board, patterned after the Permanent Fund Trustees. To qualify for board approval and endorsement before the Legislature, projects would have to demonstrate an assured source of repayment, through the generation of revenues, tariffs, rents or user fees. Examples include docks, railways, causeways, electrical generation units, water systems and waste water plants.

"The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example," Chatfield said.

The 12-page report is available at a cost of \$5 from Commonwealth North at 935 West 3rd Avenue, Anchorage, Alaska 99501.

For a list of the members of the Permanent Fund committee and a description of Commonwealth North, please see the inside back cover of the report.

**A POSITIVE  
COUNTER-CYCLICAL FORCE  
IN THE  
ALASKA ECONOMY**



037306

037307



## **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

935 West Third Avenue  
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.***

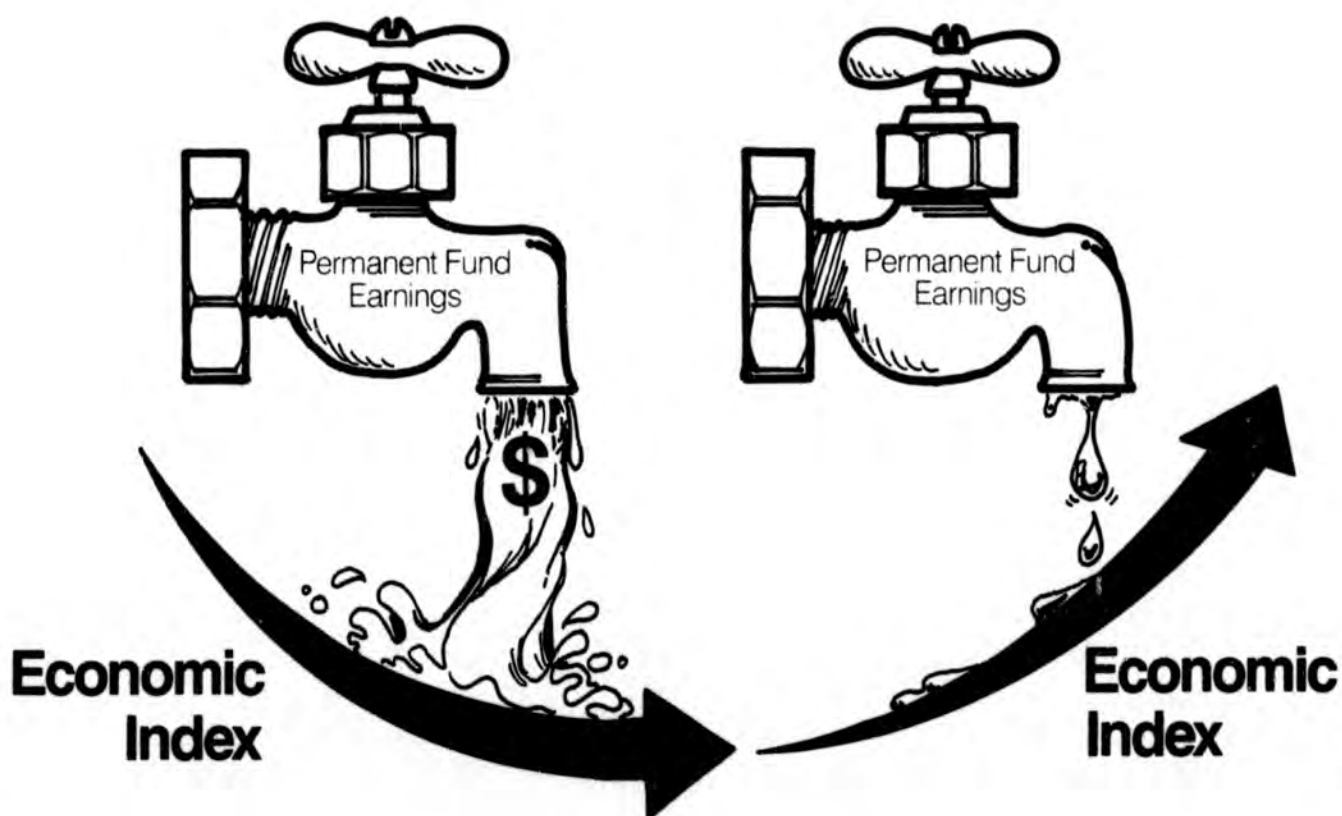
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times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

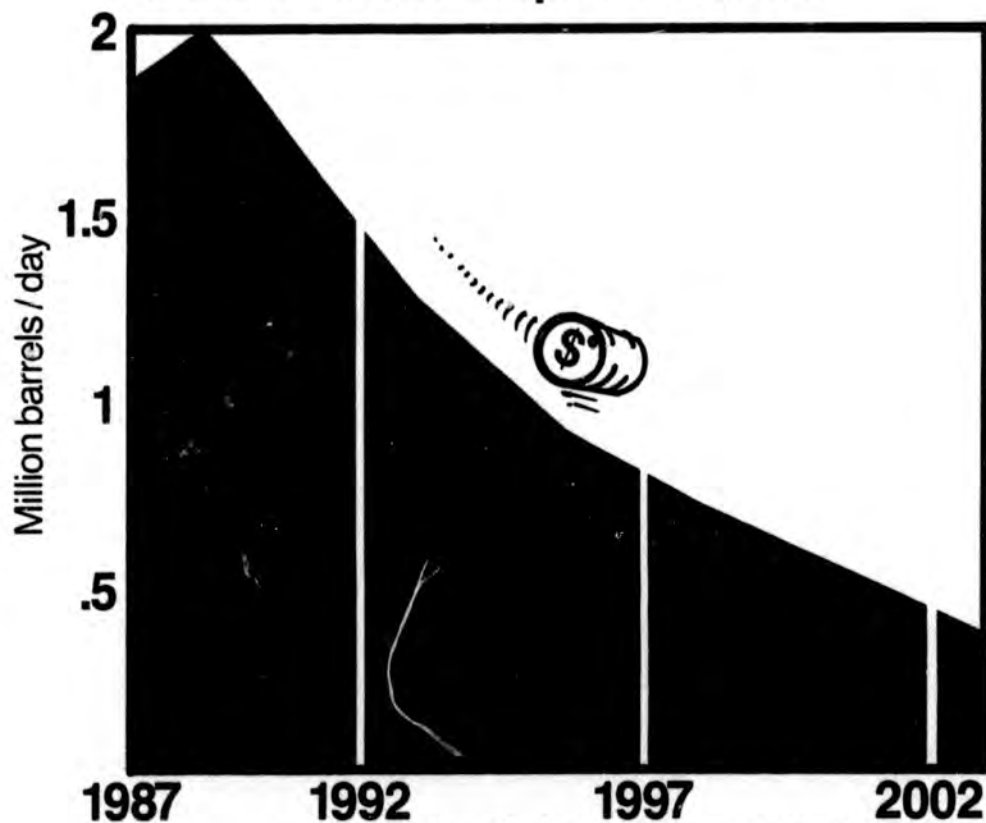
***The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.***

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.

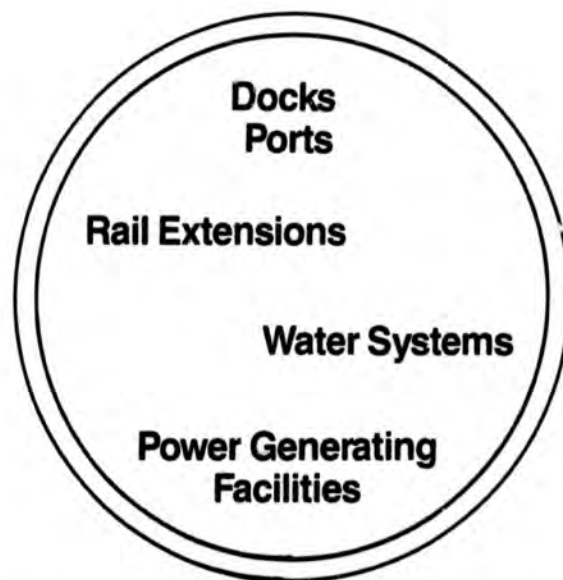
The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example. The Navy traditionally rents such facilities over a many year period.

### ***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.

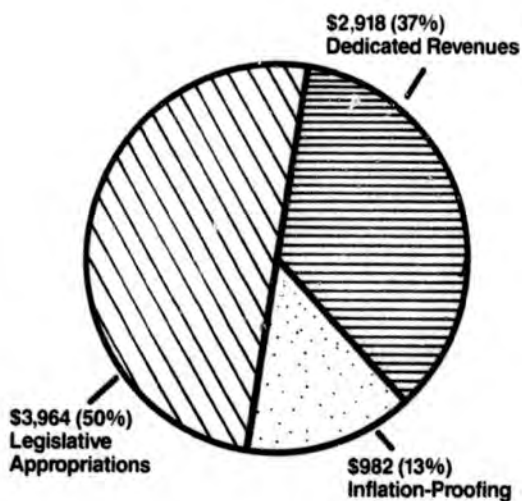
The Legislature has also demonstrated fiscal wisdom by appropriating large additional sums to the principal of the Permanent Fund during years of affluence. In fact, an impressive \$3.964 billion of the Fund resulted from such actions. This policy has been a wise one, especially in times of great wealth.

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.

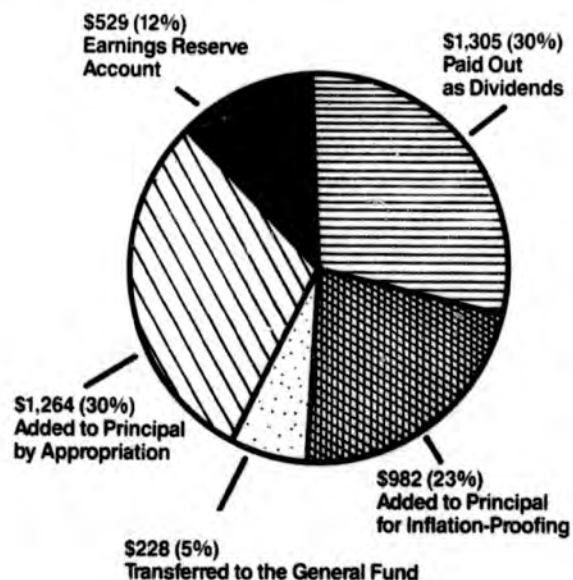
### **SOURCE OF PERMANENT FUND**

Contributions to Principal Since Inception  
Total at June 30, 1987: \$7.86 Billion  
(in millions)



### **USE OF EARNINGS**

Distribution of Earnings 1978 - 1987  
Total Net Earnings: \$4.3 Billion  
(in millions)



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.

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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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Gary Postlethwait  
Malcolm Roberts  
Lin Sloane  
Connie Yoshimura

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Malcolm B. Roberts  
*Executive Director*





HALLWOOD

## Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski  
Box V, Capitol  
Juneau  
Alaska 99811.

*15 Mts - may be sufficient  
carry loan  
100% of asset value but  
out sale - out sale 800 mm  
@ 10%*

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.

*Probably  
total is  
700-800mm  
all loans*



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 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. *15MM*

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 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 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 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 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 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.

#### 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.

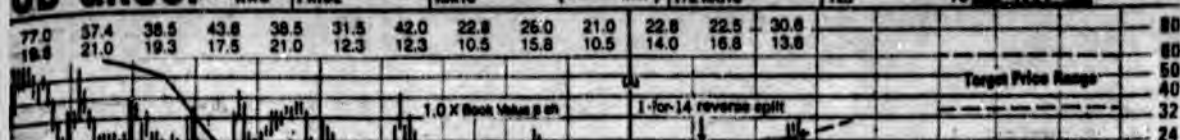
Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

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



| 1977   | 1978   | 1979   | 1980   | 1981   | 1982   | 1983  | 1984  | 1985  | 1986  | 1987  | 1988  | 1989  | 1990  | 1991  | 1992  | Value Line |
|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------|
| 186.93 | 120.76 | 50.37  | 21.24  | 20.01  | 5.25   | 22.71 | 20.98 | 20.29 | 16.66 | 16.94 | 18.04 | 19.70 | 22.35 | 20.63 | 20.63 | 20.63      |
| d89.82 | d65.06 | d66.68 | d44.36 | d34.25 | d14.76 | .55   | .82   | .83   | .28   | 1.26  | 2.07  | 2.00  | 2.85  | 2.85  | 2.85  | 2.85       |
| d89.78 | d66.25 | d70.31 | d49.16 | d37.54 | d17.23 | .56   | .56   | .14   | .11   | .84   | 1.79  | 1.56  | 2.45  | 2.45  | 2.45  | 2.45       |
| 6.16   | 6.16   | 6.16   | 6.16   | 6.16   | 6.16   | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16       |
| 890.90 | 892.65 | 830.26 | 666.18 | 428.68 | 322.45 | 28.94 | 26.27 | 30.12 | 23.24 | 27.92 | 18.49 | 16.65 | 13.65 | 13.65 | 13.65 | 13.65      |
| 21     | 21     | 21     | 21     | 21     | 21     | 21    | 21    | 21    | 21    | 21    | 21    | 21    | 21    | 21    | 21    | 21         |
| 78%    | 80%    | 71%    | 17%    | 30%    | 158%   | 42%   | 19%   | 10%   | 5%    | 1%    | 5%    | 14.5% | 14.5% | 14.5% | 14.5% | 14.5%      |
| 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%       |
| 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5%      |

| 1975   | 1976   | 1977   | 1978   | 1979   | 1980   | 1981  | 1982  | 1983  | 1984  | 1985  | 1986  | 1987  | 1988  | 1989                                  | Value Line, Inc.        | 90-921 |
|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------------------|-------------------------|--------|
| 186.93 | 120.76 | 50.37  | 21.24  | 20.01  | 5.25   | 22.71 | 20.98 | 20.29 | 16.66 | 16.94 | 18.04 | 19.70 | 22.35 |                                       | Book Value per sh       | 32.00  |
| d89.82 | d65.06 | d66.68 | d44.36 | d34.25 | d14.76 | .55   | .82   | .83   | .28   | 1.26  | 2.07  | 2.00  | 2.85  |                                       | "Cash Flow" per sh      | 5.50   |
| d89.78 | d66.25 | d70.31 | d49.16 | d37.54 | d17.23 | .56   | .56   | .14   | .11   | .84   | 1.79  | 1.56  | 2.45  |                                       | Earnings per sh         | 4.00   |
| 6.16   | 6.16   | 6.16   | 6.16   | 6.16   | 6.16   | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  | 6.16  |                                       | Div'd Decl'd per sh     | 1.20   |
| 940.90 | 892.65 | 830.26 | 666.18 | 428.68 | 322.45 | 28.94 | 26.27 | 30.12 | 23.24 | 27.92 | 18.49 | 16.65 | 13.65 |                                       | Loans & Real Est per sh | 16.00  |
| 21     | 21     | 21     | 21     | 21     | 21     | 21    | 21    | 21    | 21    | 21    | 21    | 21    | 21    |                                       | Common Shs Outst'g      | 5.00   |
| 78%    | 80%    | 71%    | 17%    | 30%    | 158%   | 42%   | 19%   | 10%   | 5%    | 1%    | 5%    | 14.5% |       | Premium over Book                     | 50.0%                   |        |
| 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%   | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  | 5.5%  |                                       | Avg Ann'l P/E Ratio     | 12.0   |
| 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5%  | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% |                                       | Relative P/E Ratio      | 1.00   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       |                                       | Avg Ann'l Div'd Yield   | 2.5%   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Bold figures are Value Line estimates |                         |        |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Gross Income (\$mill)                 |                         | 90.0   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Net Profit (\$mill)                   |                         | 20.5   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Net Profit Margin                     |                         | 23.0%  |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Loans & Real Est (\$mill)             |                         | 80.0   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Loss Reserve (\$mill)                 |                         | 1.0    |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Avg Interest Paid                     |                         | 10.0%  |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Short-Term Debt (\$mill)              |                         | 1.0    |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Long-Term Debt (\$mill)               |                         | 60.0   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | Net Worth (\$mill)                    |                         | 160    |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | % Cap Funds to Tot Cap                |                         | 72.5%  |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | % Expenses to Assets                  |                         | 12.0%  |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | % Earned Total Cap'l                  |                         | 9.0%   |
|        |        |        |        |        |        |       |       |       |       |       |       |       |       | % Earned Net Worth                    |                         | 12.5%  |

**BUSINESS:** The Hallwood Group Inc., initially known as First Pennsylvania Mortgage Trust and then as Atlantic Metropolitan, emerged with UMET Properties in 1984. Primary business is aiding in restructuring financially distressed companies, also engages in real estate and merchant banking activities. Holds equity positions in Brook Hotel Corp., Saxon Oil Company, GCA Corp. Asset

**Hallwood has completed restructuring two failing Alaska banks.** The two banks, formerly Alaska Mutual Bancorporation and United Bancorporation Alaska, have merged to form Alliance Bancorporation. As is typical of these transactions, Hallwood will raise \$65.8 million in equity for the new bank through a stock rights offering, while the FDIC has agreed to provide \$295 million by buying warrants for common stock. This rights offering will have a unique twist, however. Usually, shareholders in the failing company are given the option of purchasing stock in the restructured company at a discount; any shares remaining after expiration of the offering are then peddled to institutional investors. Hallwood generally keeps about a 10% stake as part of its compensation, but it doesn't put any of its own money at risk. Because of very weak equity market conditions, however, for this deal Hallwood pledged to purchase any unsubscribed shares after the offering. In return, after 18 months Hallwood has the option of selling all but 9.99% of the shares back to the FDIC. Hallwood will not receive any fee for the deal, but if the new bank becomes

profitable, Hallwood stands to benefit greatly, while at the same time not incurring any balance sheet risk. Furthermore, in making this very complicated and difficult deal Hallwood has gained considerable goodwill with the FDIC, ensuring future participation in bank rescues. The lack of a fee will hurt earnings this quarter, however.

**Fiscal 1988 per-share earnings should show healthy growth (about 65%) over fiscal 1987 (years end July 31st).** We expect Hallwood will participate in at least one, or possibly two additional bank rescues this year. We also expect Hallwood to move into rescues involving very highly leveraged firms, many the result of the LBO craze. The sale of the company's residential properties in the United Kingdom should help improve bottom line performance over the next twelve months. Although not timely for the year ahead, this equity is well above average for 3-to 5-year appreciation potential. Since revenue recognition is so erratic, however, it is probably only suitable for risk-tolerant portfolios (Safety Rank 5: Lowest). *Richard Lynch/Richard Anderson*

mbc (end of '87): 60% financial services and 40% real estate. Currently liquidating real estate holdings in the U.K. Has about 25,000 shareholders. Hallwood Securities owns about 10% of fully-diluted stock. Incorporated: Delaware. Chairman: A.J. Gumbiner. President: Brian M. Troup. Address: 787 Third Avenue, New York, New York 10017. Telephone: 212-319-2360.

FEB 22 1988

H. Norman Rokeberg  
6534 Lakeway Drive  
Anchorage, AK 99502

February 18, 1988

Senator Jan Faiks  
Alaska State Senate  
P.O. Box V  
Juneau, AK 99811

Subject: Economic Recovery  
Commercial Real Estate

Dear Ms. Faiks:

Attached is an outline of a plan to help stop the downward trend in Alaska's commercial real estate market. In a nutshell, it calls for "imploding" the failed inventory of properties held by the Alaska Industrial Development and Export Authority (AIDEA) on its existing equity.

A brief overview shows Anchorage's real estate problems are a result of over supply and diminished demand. The best statistical example can be seen in the office space market.

Presently, Anchorage has an inventory of 7.8 million square feet, of which 1.7 million is vacant, or 21.7 percent. (These are my preliminary year end numbers.)

During the past 15 years over 6 million square feet of office space was built with annual absorption of approximately 350,000 square feet per year. During the past two years we have experienced a net negative absorption of more than 400,000 square feet.

The drop in demand has depressed rent levels by more than 33%, for example, Class "A" rates have decreased from ranges of \$2.35 to \$1.50 per square foot per month. Income properties are valued on their ability to produce revenues. Warehouse and strip retail rents have dropped by as much as 40 to 50 percent.



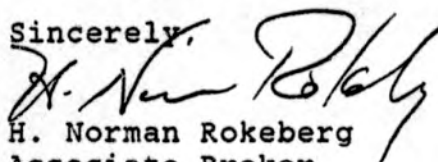
Jan Faiks  
February 18, 1988  
Page 2

AIDEA, in concert with poor commercial banking practices, was a primary cause of the over supply problem. When traditional mortgage lenders were constrained by prime rates of eighteen percent and more, the State of Alaska clearly meddled with market forces by stimulating construction with IDB subsidized loans. Buildings mushroomed and caused the 1985 real estate recession prior to the oil collapse.

I remain a firm believer in a free market, however, once the State disrupts that market with "economic engineering", it has a social as well as an economic responsibility to help correct its mistake.

Please call me at 563-5500 if you have any questions.

Sincerely,



H. Norman Rokeberg  
Associate Broker  
Jack White Company

HNR/sc

enclosure

cc: Tony Smith  
Dave Rose  
Ron Lehr

## ALASKA ECONOMIC RECOVERY PROGRAM

### Demolition of Commercial Property Alternative

Intent: Use equity of AIDEA to pay for demolition of properties foreclosed upon by AIDEA.

Purpose: Implementation of this public policy will: 1) diminish the supply of commercial property; 2) be a clear statement to the private sector that the state is acting to correct a recognized economic problem; and 3) minimize the demand on the public treasury.

Rationale: The State of Alaska's AIDEA was a proximate cause in creating an over supply of commercial properties. During the boom period of 1982 to 1985, AIDEA subsidized construction of more than 300,000 square feet of office space in the Anchorage market.

Assumptions: Given bond obligations in the 300 million range and an equity of approximately 300 million, AIDEA has the existing resources to assist in curing a problem it helped to create.

Suggested Mechanics: 1) As a first step AIDEA would endeavor to "work out" the problem loan; 2) failing a satisfactory work out, AIDEA would accept a deed-in-lieu or foreclose on property; 3) if a statutory foreclosure is instituted, AIDEA would attach the existing income stream (by assignment of rent provisions) to avoid "creaming" by the borrower; 4) after a suitable period (say six (6) months) if the property could not be resold for cash (i.e., non-AIDEA financing) then the building would be scheduled for demolition; 5) any existing tenants would be relocated and the leases terminated. In the event of relocation, the tenant would be granted a maximum ninety (90) day rent abatement to facilitate relocation; 6) upon completion of the above steps, AIDEA would contract for the total demolition of the building and

foundation; 7) AIDEA would bear the interim holding costs and demolition; 8) participating private lenders would be required to write off their portion of the loan; and 9) the land would be held by AIDEA as part of its asset base until market conditions allow for sale.

Legislative Action: The legislature would adopt the above procedures, together with a public directive prohibiting AIDEA from lending on commercial properties in urban areas anytime in the future.

Conclusions: A similar policy directive could be applied to residential housing loans held by AHFC.

This alternative is not a bail out, as it applies only to failed properties. However, it may aid the liquidity problem by encouraging deed-in-lieu return of property, and, therefore, save some borrowers from bankruptcy.

While this program is not a total solution, it has the following advantages: 1) it requires no state funding; 2) it is relatively simple to implement; 3) it uses an existing organization to execute; and 4) it can be started very quickly.

Submitted by: H. Norman Rokeberg

2/88



Funding Information

|              |                   |
|--------------|-------------------|
| General Fund | \$6,828,000       |
| Other Funds  | -0-               |
|              | <hr/> \$6,828,000 |

BY HERRMANN, GRUENBERG  
AND SUND

1 IN THE HOUSE

2 HOUSE BILL NO. 492

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the Depart-  
7 ment of Administration for grants and to the Office  
8 of the Governor for operating expenses to implement  
9 the Alaska bottomfish development plan; and providing  
10 for an effective date."

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

12 \* Section 1. The sum of \$2,638,000 is appropriated from the general  
13 fund to the Department of Administration for payment as a grant under  
14 AS 37.05.315 to the city of Unalaska for the Ballyhoo Road water project.

15 \* Sec. 2. The sum of \$1,298,000 is appropriated from the general fund  
16 to the Department of Administration for payment as a grant under AS 37.05.-  
17 315 to the city of Unalaska for the Ballyhoo Road sewer project.

18 \* Sec. 3. The sum of \$2,350,000 is appropriated from the general fund  
19 to the Department of Administration for payment as a grant under AS 37.05.-  
20 315 to the city of Unalaska for Ballyhoo Dock expansion, including related  
21 upland improvements.

22 \* Sec. 4. The sum of \$232,000 is appropriated from the general fund to  
23 the Department of Administration for payment as a grant under AS 37.05.315  
24 to the Municipality of Anchorage for a program to implement the Alaska  
25 bottomfish development plan within the municipality.

26 \* Sec. 5. The sum of \$250,000 is appropriated from the general fund to  
27 the Department of Administration for payment as a grant under AS 37.05.315  
28 to the Municipality of Anchorage to establish a computerized fisheries  
29 information system within the Port of Anchorage to implement the Alaska

1 bottomfish development plan.

2     \* Sec. 6. The sum of \$60,000 is appropriated from the general fund to  
3 the Office of the Governor to fund a position in that office to coordinate  
4 the implementation of the Alaska bottomfish development plan.

5     \* Sec. 7. The unexpended and unobligated portion of the appropriations  
6 made by secs. 4 - 6 of this Act lapse June 30, 1989.

7     \* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

## ALASKA BOTTOMFISH DEVELOPMENT PLAN

If a company were in deep economic trouble it could do two things:

1. Analyze its strengths and invest resources into realizing the potential of these strengths so as to rebuild the company.
2. File bankruptcy and go out of business.

Our State does not have the luxury of going out of business for the people. We must build on our strengths, especially when different cities and regions of the State can cooperate with each other in real economic development.

The booming Alaska Bottomfish industry is such an opportunity - not our only opportunity - but an opportunity that is immediately realizable. There is a high rate of return to the State, and the potential for creating thousands of jobs for Alaskans.

The stakes are huge: 2 million metric tons of 43 different species of Bottomfish in the Bering Sea are harvested annually. That is 4.5 billion pounds of fish! The Bering Sea can be a perpetual Prudhoe Bay if we manage it wisely.

The Japanese estimate that the Bering Sea fishery is responsible for more than 500,000 jobs in Japan. This includes fishing and processing, value added reprocessing, transportation, marketing and the service industry necessary to keep it all operating. To make the best decisions they have the best fisheries research and information systems available.

As the Foreign fleets are being phased out, this fishery is being Americanized. But how much of this Americanization will benefit Alaska? That depends on what we do to take advantage of this opportunity. The State of Washington commissioned a study to determine its role in the Alaska Bottomfishery and found that 93% of the value of the fishery goes to Washington.

Now is the time for Alaska to stake our claim on the enormous economic potential of this industry during its developmental stage. This is an opportunity to put the "Bush vs: Anchorage" syndrome behind us and work together to put our State back on a sound economic footing.

Some of these plan elements are immediate, some are more long term. Along with seizing the immediate opportunities, we need to look out for the long-term interests of the whole State in this endeavor. As a coordinated effort this plan is substantial enough to really accomplish something. The plan includes capital projects and policies designed to capture a large share of the Bottomfish industry for Alaska.



The capital projects portion of the plan would be a supplemental capital budget. We do not seek to alter the Governor's Jobs Bill as it is a necessary relief measure which will distribute State money throughout the whole State. However, along with relief, it is necessary for the State to target economic development projects which will move the State's economy ahead.

#### PLAN ELEMENTS:

1) Primary production: Many companies want to locate onshore in Alaska. Our communities do not have the basic infrastructure to accommodate this development. \$6 million in capital projects in Unalaska/Dutch Harbor will bring \$60 million dollars of private investment in fish processing, cold storage, salvage and other associated services. The projects are a water and sewer extension and an 800 foot extension of the City Dock. (See attached project description #1). It is Unalaska's #1 capital projects priority.

St. Paul harbor completion - \$4 million is already included in the Governor's capital budget so the Bottomfish industry can locate some of their operations in the Pribilofs.

2) Services and marketing: Anchorage is the logical location for the service center for Alaska's Bottomfish industry. It means millions of dollars a year to Seattle's economy and it can mean the same thing for Anchorage's economy if we analyze which segments of the service industry it is reasonable to locate in Anchorage. We can then design an aggressive campaign to show our existing businesses which services are needed and also convince new businesses to locate in Anchorage.

The obvious industries are cold storage and transportation at Anchorage International Airport, banking, primary and secondary processing, office location (the price is right), fisheries data bank location, retailing parts and commodities to rural fish production centers such as marine repair parts, food, automobiles, processing equipment, etc.

The cost of this project is \$232,000. (See attached project description #2)

3) Value added processing: Most of the value added in the Bottomfish industry is in processing the product to final form. Most of our seafood leaves the State in the least processed form possible, sometimes even frozen whole.

The purpose of the Fisheries Industrial Technology Center (FITC) in Kodiak is to provide research and training on value added processing techniques. Dr. Jong Lee expresses the philosophy of the Center: "When I think of fish I see money -- Kodiak is left with the fish guts and the smell and somebody else gets the money."

The FITC will be an important addition to Alaska's strategy to keep more of the jobs in Alaska. This project is 7 million dollars and is Kodiak's #1 capital project priority. (See attached Project Description #3)

4) Information Systems: A computerized fisheries information system is necessary to provide information on fisheries performance, research and import/export marketing information. This information system would be a function of the Port of Anchorage through a working agreement with other ports and private users in Alaska who would pay for operational costs through users fees. The cost for establishing the system, including hardware is \$250,000. (See attached project description #4)

5) To become more self-sufficient in port and harbor development, Southwest Alaska should form into an Economic Development District under EDA or should join with Anchorage and other Alaskan ports to form the Alaska Port Authority.

6) Support the proposal by Southwest Alaska Municipal Conference before the North Pacific Fisheries Management Council (NPFMC) to implement the priority U.S. cargo carriers and bulk fuel distributors are given under the Magnuson Act. The proposal would require foreign JV processors to utilize domestic support capacity before foreign operations could be brought in. This would mean millions of dollars of support activity for Alaskan ports.

7) Support the allocation of a percentage of the total Bottomfish quota directly to Alaska coastal communities as a Community Development Quota. The smaller villages especially need this development quota to ensure that they will benefit from Bottomfish development. Federal Bottomfish limited entry proposals could otherwise legally disenfranchise our people from participating in the fishery.

8) Orient our local and University school systems to train Alaskans so they can fully participate in the development of the fishery. So often we wring our hands about other people taking our work when in fact we also need to make the commitment to offer qualified people.

The State legislature should amend the State raw fish tax law to allow processors to check off 3% of their fish tax which would be administered by the Department of Education. Funds would be granted to secondary school systems to allow for development of fisheries education programs in local schools.

9) Establish the Governor's proposed Alaska Science and Technology Foundation. This is necessary to accomplish applied research to keep us current with new trends in the industry.

10) Extend the effective date of the State's investment tax credit program on fish tax to encourage on shore processing development. Last year this program was responsible for more than \$49 million of private investment in onshore operations.

11) Resource protection: Establish a mandatory observer program on floating processing vessels. Support enforcement measures to control foreign fishing in our waters, including a mandatory check-in, check-out system. Support bi-lateral agreements with the Soviet Union on taking fish management control in the "Donut hole" under the closed and semi-closed seas section of the Law of the Sea Convention. Oppose increases in the Bottomfish quota at this time until illegal foreign fishing and other management uncertainties can be eliminated.

CONCLUSION: The State has a responsibility not only to provide relief for hurting Alaskan communities. We also have the responsibility to build our economy for the future. This Bottomfish development plan is an ambitious but realistic proposal to ensure that Alaskans benefit from this developing industry. Other people may be able to indicate further opportunities in Bottomfish development. This is a good start.

The additional capital project portion of this plan is \$13.7 million dollars. The appropriation of these funds is a sound investment in the future of Alaska.

For more information contact:

Paul Fuhs, Mayor, City of Unalaska, (907)581-1251  
Jerome Selby, Mayor, Kodiak Island Borough, (907)486-5736  
Tom Fink, Mayor, City of Anchorage, (907)343-4804



## CITY OF UNALASKA

P.O. BOX 89  
UNALASKA, ALASKA 99685  
(907) 581-1251

### SYNOPSIS OF ESSENTIAL CAPITAL PROJECTS CITY OF UNALASKA FY 89



#### Ballyhoo Road Water and Sewer

##### WATER

The water project would replace approximately twenty thousand feet of World War II vintage water line varying in size from 3 inch galvanized iron to 12 inch wood stave line. The new line would be 12"-20" ductile iron pipe.

The Delta Western Complex which presently exists is seriously under utilized because there is not enough water pressure to provide sprinklers in two of their new warehouses.

Icicle Seafoods has brought in a barge for fish processing and has a long term development plan for property they have leased from the Ounalashka Corporation. Without additional water capacity these plans will not be able to be carried out.

The Ounalashka Corporation has had a number of inquiries from processors, and service providers about leasing land along the road, but the lack of city services makes the land undevelopable. There is no other area of the community that is close to tidewater that can be used by deep draft vessels. The total cost of the water project is estimated to be \$2,638,000.

With the addition of the Icicle barge which is now processing fish, there has been a substantial reduction in water pressure at the Ballyhoo Dock, the major watering point for large vessels. This slows the turnaround time on the dock, worsening the dock congestion problem.

##### SEWER

The sewer project would extend the city sewer system to this area which is presently unserved. It would bring in approximately 10,000 feet of sewer line which would make the area useful. DEC has prohibited further development of the area without a public sewer.

The Ounalashka Corporation and the City of Unalaska, both of which are land owners along Ballyhoo Road have had to turn down requests for long term land leases because of the lack of a public sewer in the area.

The City of Unalaska has had some preliminary engineering done on this project which gives a cost estimate of \$1,298,000 for a conventional system. This would assure a relatively trouble free line which would be handling extensive industrial activity.

#### DOCK EXPANSION

The third priority component of the City of Unalaska's capital requests is the expansion of the Ballyhoo Dock. This project would include an 800 foot extension to the existing 400 foot dock, removal of rock from a hillside on the property to provide additional staging area, and placement of the rock in the water to increase the amount of available land for storage and transshipment of cargo.

We expect fifteen to twenty factory trawlers to be using the facility in the next year. We have presently seven factory trawlers each using the facility every twenty days to load supplies and unload three million pounds of fish product at each off load.

In addition Petro Marine Services has put a multi-million dollar tank farm on the uplands on the Ballyhoo Dock property. This tank farm has pumped many millions of gallons of fuel oil to fishing, processing, and cargo vessels in the six months it has been in operation. The agreement we have with Petro Marine calls for first priority to be given to vessels loading and unloading cargo. The lack of additional docking facility reduces Petro Marine's ability to deliver fuel, and revenue to the city from the sale. In the first two weeks of this year, 114 fishing vessels were denied moorage at city dock facilities due to lack of space.

The companies desiring to locate on Ballyhoo Road if we can provide the basic infrastructure are: Icicle Seafoods, Artic Storm, Amfish and Golden Alaska (fish processors); Sunmar, Delta Western and Sealand Services (shipping and cold storage); Fred Devine Salvage and Marco-Seattle (vessel repairs); and Hokodate Seimo Sengu a net manufacturer.

The total cost of the dock project is \$2,350,000.

**UPDATE!**

COMING UP  
ON  
PUBLIC  
TELEVISION

A

# Currents

**The Question:** Should we legalize  
private salmon farming  
in Alaska?

**The Players:** Norwegian Businessmen;  
Washington &  
British Columbia  
Fish Farmers;  
Alaskans - Pro & Con

**The Place:** KTOO-TV

**The Time:** Thursday, April 7th  
8:00 pm

Watch this special half-hour documentary as it re-airs  
with an **UPDATE** on the current status of  
mariculture legislation.

**KTOO-TV is Southeast  
Alaska's only  
regional television station.**





# Opinion

Friday, March 11, 1988

## Mayor Fink's solution part of the problem

Tom Fink is a special type of politician, even by Alaskan standards.

He is intelligent and straightforward. He can be charmingly inflexible. He's unaccommodating in victory and unrepentant in defeat. I like him.

Now that Tom Fink is mayor of Anchorage, he's been visiting Fairbanks to drum up some sort of Railbelt coalition of municipal and business leaders. He proposes a joint effort to persuade the Legislature to divert a few hundred million dollars from somewhere (the Permanent Fund) to a massive welfare program for the "haves."

There's a certain appealing ring in Mayor Fink's pitch. The end of the state spending spree after the 1986 oil price crash certainly brought its share of hardships. If the state government has money in the bank, Mayor Fink suggests, why not spend a little of it to soften the blow?

But Mayor Fink's solution is, in fact, the problem itself.

In talking about state budget cuts, we must keep in mind how there are several components of



**Fred  
Pratt**

*Views expressed here do not necessarily represent those of the Daily News-Miner*

the state budget and cuts in each one affect regions of the state in different ways.

The state operating budget for the current fiscal year is about what it was four years before, in Fiscal Year 1984. This part of the budget, which covers the day-to-day operations of the state government, peaked in FY 1985 at just under \$3 billion, and has since been cut 11 percent to \$2.63 billion this year.

The capital budget, which covers construction projects and major purchases, dropped 75 percent in the same period, from \$1.44 billion in FY 85 to \$358 billion in FY 88.

State loans declined about the same proportion as the capital

budget, from \$372 million in FY 85 to \$77 million this year.

Thus, if you're in a community like Juneau that gets a lot of money from the operating budget for state employee salaries, you weren't hurt as much as a community that gets most of its state spending in the form of capital projects and state loans.

Fairbanks has a healthier mix of operating money, construction and loans. Anchorage, on the other hand, pulled more money from the state treasury for the direct benefit of its private industry sector; construction companies, builders who rely on state mortgages and businesses that rely on state loans.

That's why the cut in state spending has hurt Anchorage so much.

In 1981, for instance, Anchorage's share of state loan programs was \$1,237 per capita, compared to \$809 per capita in Fairbanks and \$989 per capita statewide.

Last year, after the cuts, Anchorage's loans were down to \$158 per capita, virtually the same as Fairbanks' and considerably less than the state average of \$263 per capita.

The comparison is even more

clear in state mortgages. In FY 87 Anchorage got \$278 million in Alaska Housing Finance Corp. mortgage money for its overblown housing industry, which works out to about \$1,200 per capita. In Fairbanks we got \$61 million in state mortgages, or \$841 per capita.

In the past decade the Alaska Housing Finance Corp. sold bonds to borrow more than \$4 billion that it loaned back out in the form of home mortgages, more than half going to Anchorage. The AHFC bonds make up half the state's total debt burden.

The Anchorage housing industry is overbuilt because the state was subsidizing mortgages. The state further subsidized Anchorage's sprawling growth with road projects and low-interest loans to strip mall developers.

But before we feel too sorry for Anchorage, let's remember a few more things.

Unemployment in Anchorage last December was 8.2 percent, while in Fairbanks it was 12.9 percent without even counting all the guys from Anchorage who come up here to take jobs away from Fair-

banksans out of our union halls.

The number of people unemployed in Anchorage was 8,229, compared to 4,112 here. That means that Anchorage, with three times our population and labor force, has only twice as many people out of work.

The Anchorage mayor's solution is to pump more money into the very programs that so disproportionately benefited Anchorage in the past, and from which the governor and Legislature have wisely cut the greatest amount of surplus spending.

In effect, Anchorage is like a drunk who's been knocking down three shots for our two. It's no wonder if Anchorage is suffering a worse economy: "hangover".

Mayor Fink's solution to his city's binge isn't an aspirin and a late morning snooze. He's asking for some "hair of the dog," another huge round of state spending.

It's hard to see how that will help Fairbanks.

*Fred Pratt, a freelance writer living in Fairbanks, is a reporter and long-time observer of Alaska politics.*

# Fairbanks

## CITY BRIEFS



### TODAY

6 p.m.—Fairbanks Libertarian Party Supper Club meeting, 1604 Madison Dr. Information: 479-4250.

6:30 p.m.—Military Retiree Council meeting, NCO Club, Fort Wainwright. Plans for social will be completed. Information: 457-4697.

8 p.m.—Nugget Squares dance, Alaskaland Dance Center. Caller: Gordy Oseth. Cues: June Kaiser. Information: 488-6970.

8 p.m.—Farthest North Dairy Goat Association meeting, North Pole. Information: 488-9615.

8 p.m.—Midnight Sun Chapter No. 6, Order of the Eastern Star meeting, Masonic Temple, 809 First Ave. Information: 479-6861.

8:30 p.m.—University Contra

## Joling named News-Miner news staff chief

Dan Joling, who has worked as a reporter, legislative correspondent, columnist and copy editor since joining the Daily News-Miner in 1978, today was named the newspaper's managing editor.

Joling, 33, a native of Wisconsin, has been writing the newspaper's Hometown Reporter column since July 1986. He recently had been promoted to assistant city editor.

The appointment, effective March 28, was announced by Charles Gray, president and general manager of the newspaper.

Joling has a master's degree in journalism from the University of Missouri and a bachelor's degree with honors in English literature from Bethel College in St. Paul, Minn. In 1977, he was a participant in Missouri's highly regarded Washington, D.C. graduate-reporting program, covering regional issues for several newspapers, primarily the Yakima (Wash.) Herald-Republic.

"I believe working in daily journalism is a privilege and a trust," Joling said. "A newspaper is the primary vehicle used by citizens in



DAN JOLING  
Promoted

reassignment to the copy desk where he is in charge of the Saturday and Sunday AMs editions. Sturgis served as managing editor from 1975 through August 1986. He is an investor in and recently was named president of Epicenter Press Inc.—a new Alaska-based book publishing company incorporated in January.

Joling was born in Sheboygan, Wis. He and his family moved in 1962 to Rhinelander, Wis., Joling graduated from high school in

## Borough pushes

By PATRICK HUND  
Staff Writer

The borough joined the city Thursday in calling upon the state to make it a crime to possess marijuana in the home.

The Fairbanks North Star Borough Assembly Thursday voted 6-3 in favor of a resolution that says current law "sends a harmful and mixed message to the youth of our state by having a law which allows the use and possession of marijuana in the home . . ." The Fairbanks City Council approved a similar measure Wednesday.

The State Senate recently approved a measure that would make marijuana possession in the home a crime. The bill is awaiting consideration in the State House.

Assemblyman Ed Linkous said every student organization in the state has recognized that marijuana use is a problem and wants the situation rectified.

Assemblyman J.B. Carnahan said young people need to recognize the effects of the drug. "We as adults need to send a clear message to our children," he said.

(Others assembly members sup-

porting the measure were: Walt Johnson, Joe Ryan, Chris Birch and Jerry Norum.

Assembly members Buzz Otis, Valerie Therrien and Jeff Weltzin voted against the resolution, while Paul Chizmar and Sandra Stringer were excused from the meeting.

Therrien said the resolution is not in compliance with the state constitution.

"This is one more attempt by the assembly to take away the rights of privacy of the people," she said.

Weltzin agreed with Therrien.

"They're willing to give up sacred rights of Alaskans," he said. "It's too sacred to be tampered with."

Weltzin said that state laws already prohibit the sale of marijuana and possession by a minor.

In other action, the assembly voted 8-1 to take some land from Alaska Northwest Properties Inc. by eminent domain if the company does not sell a parcel of property at the borough's offer of \$526,570, which exceeds the appraised value.

The assembly plans to authorize building a new elementary school on the site off Loftus Road to re-



# **Report of the Subcommittee on Small Business**

## **Joint Committee on Economic Recovery**

### **members**

**Rep. Red Boucher, Chair**  
**Rep. Bill Hudson, Vice-chair**  
**Rep. Johnny Ellis**  
**Rep. Adelheid Herrman**  
**Rep. Lyman Hoffman**  
**Rep. Steve Frank**



## **Background**

The Small Business Subcommittee held seven teleconferences between February 4 - 16, 1988. The teleconference sites included Anchorage, Juneau, Fairbanks, Mat-Su, Homer, Bethel, Sand Point, Kodiak and Dillingham. The Small Business Subcommittee's agenda was to listen to, identify the needs of, and network small businesses with the agencies and services currently available.

## **Discussion**

The participants most frequently said they lacked information about what funding, services and agencies are available to help them.

Small business has long been touted as the backbone of the American economy. A recent study indicates that the formation and expansion of firms that employ fewer than twenty people have generated virtually all of America's net employment gains since 1981.

The strength of Alaska's economy rests on a vigorous and diverse small business community. Small business produces more new jobs, ideas and technology than any other sector. As they prosper, new enterprises account for significant government revenues, and their innovative entrepreneurial policies stimulate industries to greater productivity.

Policies favoring economic diversification, import substitution, and value-added exports are an unqualified call-to-action for Alaska's small businesses and manufacturers. As other states with similar policies have discovered, direct investments in the development of marketable products is the most cost effective and expedient means of establishing a stable employment base.

The Subcommittee on Small Business has reviewed the following programs and services already established in the state and believes that the efforts of business assistance should be focused through a delivery system that utilizes these programs and services.

The Small Business Development Center of Alaska (SBDC) represents a unique partnership between the Alaska Department of Commerce and Economic Development, the Small Business Administration, and the statewide University of Alaska System. SBDC has offices in Juneau, Fairbanks, Anchorage, Kenai, Kodiak, Valdez, Bethel, Kotzebue, Nome and Ketchikan.

The Small Business Development Center is funded by the State of Alaska and the Federal Small Business Administration. Because of its association with a federal agency and the state University system, SBDC can access national, state and local procurement systems, international trade networks and various databases.

The Small Business Development Center provides instruction in the areas of development of new ideas for products and services, financial management, marketing, export and importing financing information, export and import trends and potential of a region. Additionally, it offers courses, seminars and workshops on current business topics. SBDC has a natural tie with the Alaska Center for International Business which, like SBDC, is a part of the University system.

The Alaska Center for International Business conducts research, including research on market information and market strategies, relating to trade by businesses in the state with foreign nations, and, in particular, Asian nations.

Additionally, the Center for International Business assesses the potential of various markets for the state's natural resources and technical and informational resources. It identifies and analyzes the import requirements of and trade barriers to commodity sales in other nations. It also identifies the state's trade competitors and assesses the public policy and programs used by the competitors to foster trade with potential markets for the state's goods and services.

Another program that has been invaluable for its hands-on technical assistance and training to small businesses in rural Alaska is the Alaska Business Assistance Center. The Business Assistance Center helps rural Alaskans through the myriad requirements of establishing and running a small business in the state. The Business Assistance Center has helped many people regarding loan foreclosures. Foreclosing on loans is cumbersome and confusing to rural Alaskans, and the Assistance Center has prevented many people from losing their loans and their livelihood. Through the efforts of the Assistance Center, many loans have been saved before they got to the point of foreclosure.

The three-year-old Made In Alaska program of the Department of Commerce and Economic Development remains the most substantive state effort to stimulate manufacturing jobs in Alaska to date. However, this program remains unfunded.

The problem, as previously discussed, deals with informing and offering instructional assistance to small business persons. The Small Business Subcommittee believes that networking and instruction can be implemented very easily. The University of Alaska Anchorage Department of Instructional Television Service has the equipment and facilities to produce and edit the courses, seminars and workshops that are being planned by the Small Business Center, the Alaska Business Assistance Center, the Center for International Business and the Made in Alaska Program.

These tapes can then be distributed and aired on the public access channel on the



local cable television systems. Currently there are twenty-four cable systems in the state. Under this plan, interested persons will be able to view these instructional and informational programs in their homes. Additionally, Public Service Announcements over the RATNET system can be utilized to make areas of the state not served by cable television aware of what is available and who to contact for more information, etc.

In Anchorage, these programs can be viewed by those who do not currently have cable television. The Anchorage schools, with the exception of Bartlett, are cabled. Interested business persons can go to their neighborhood schools to view the various taped programs on the public access channel.

Another way for interested business persons to utilize these programs will be through the municipal library systems. Tapes could be checked out, just like a book, and viewed on a VCR.

The implementation of this plan will further the intent of CSHB 40 which was enacted to develop and implement a cost-effective policy for managing the state's information and information technology resources so that state government may better serve the people.

The Small Business Subcommittee believes the small business person will also benefit from the Alaska Neighborhood Business Initiative. This would be a valuable referral tool for small businesses and manufacturers.

## **Conclusions**

If the state is going to work towards stabilization and expansion of our economy, then we should be doing everything possible to establish a climate conducive to the development and communication of ideas of small business.

Small business in Alaska is concerned with the proliferation of regulations and other expensive permitting processes on both the local and state level, all of which increase the costs of doing business.

There is a need for a regulatory clearing house to receive the complaints and constructive proposals of small business. The clearing house would work to reduce the costs of doing business.

The budget efforts for this business assistance system should involve all departments and agencies that are concerned with small business.

In addition to improving the business climate, the State needs to find new ways to improve the competitiveness of Alaska manufactured products.



## **Recommendations**

The Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the University of Alaska, the Division of Tourism, etc. to identify a few, should jointly budget and develop a comprehensive program to promote royalty-based product development investments that create permanent jobs at the least cost.

The Legislature should establish a broad-based economic index, written in law, which will enable the Legislature and the Governor to determine objectively the performance of the economy and its outlook and which will become the basis for formulating the state's fiscal policy.

This Alaska Economic Index should include indicators such as:

Consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value on contract construction, personal income, gross state products and state revenues.

The Legislature should also:

Support passage of CSHB 430 (Labor and Commerce) - Neighborhood Business Development Fund

Support passage of HB 431 - Appropriation: Neighborhood Business Development Fund.

Support passage of HB 219 - Appropriation: Alaska Center/International Business

Support passage of HB 352/SB322 - Worker's Compensation

Note: Small Business Subcommittee received more correspondence and comments from small businesses on this subject than on any other piece of legislation.

Support passage of SB 166 - Regulations that Affect Small Businesses and Municipalities.

Support passage of CSHB 310 (Labor and Commerce) - Relating to Public Works and Public Construction.

Support passage of CSHB 45 - Relating to Alaska Business Bidder Preference.

*Butro*

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY  
Agenda items for Meeting of March 14, 1988

*Pat Steward wife (Marilyn Steward)*

1. SB 484 - restructuring the debt of certain dairy farmers.
2. Willow Park Demolition Resolution.
3. SB 471 - establishing a program in the Alaska Industrial Development and Export Authority to guarantee business loans and to refinance debt.
4. Update on bridge-bank concepts. *check w/ Jim Kelly*
5. FDIC status report.
6. *7 digit liability resolution*

*Handwritten signatures and initials:*  
Kodlen  
Tuttle  
Zharovsk 0/16  
Dyghin  
Jones  
Arlin  
Coughlin  
Helford  
*Handwritten signature: [unclear]*

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: March 7, 1988

RE: Committee Endorsement of Legislation

The Senate Joint Committee on Economic Recovery has reviewed the following legislation and recommends passage by the Fifteenth Alaska Legislature.

SCR32 - by Senator Paul Fischer - "Urging the state's financial institutions to adopt more flexible lending and collection policies."

Status: House Labor & Commerce Committee.

This legislation urges banks, the Alaska Building Authority, the Alaska Industrial Development and Export Authority and other financial institutions to adopt a flexible position when servicing loans by amending procedures to allow for collection moratoriums and flexible payment schedules to allow for realistic and practical loan workouts.

SB333 - by Senator Rick Halford - "An Act relating to wage, salary and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

Status: House Labor & Commerce Committee

This bill provides for quarterly reporting by a bank of the financial condition of that bank. It also assigns a high priority to wage, salary and benefit claims in cases of certain bank liquidations.

SB392 - by Senator Rick Halford - "An Act relating to delinquent loans of the Alaska Industrial Development Authority; and providing for an effective date."

Status: House Labor & Commerce Committee



This bill allows the Authority the flexibility of adopting regulations defining under what circumstances AIDEA will discontinue purchasing loans from a financial institution because of the institution's loan default rate. Statute currently causes AIDEA to discontinue purchasing loans from an institution with a default rate of 2% or more.

**SENATE COMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY**

**March 16, 1988**

**5:00 P.M.**

**MEMBERS PRESENT**

Senator Arliss Sturgulewski, Co-Chair  
Senator Lloyd Jones, Co-Chair  
Senator Jan Faiks  
Senator Rick Halford  
Senator Joe Josephson  
Senator Jack Coghill  
Senator Pat Rodey

**MEMBERS ABSENT**

Senator Dick Eliason  
Senator Fred Zharoff

**WITNESS REGISTER**

Tony Gambiner, Chairman  
The Hallwood Group  
767 Third Avenue  
New York, New York 10017  
(212) 319-2360

Frank Cox, District Director  
Small Business Administration  
701 "C" Street  
Anchorage, Alaska  
(907) 271-4022

Nancy Gross, City Manager  
City of Unalaska  
P. O. Box 89  
Unalaska, Alaska 99685

Gary Daily, Port Director  
City of Unalaska  
P. O. Box 89  
Unalaska, Alaska 99685

Dennis Robinson  
Ounalashka Corporation  
Unalaska, Alaska 99685

**ACTION NARRATIVE**

Tape One, Side One  
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:10 p.m. Senator Tim Kelly was also in attendance.

Tony Gambiner, Hallwood Group, addressed the committee on the Hallwood Alaskan Real Estate Stabilization Trust (trust), or bridge bank, proposal. He said that Jim Cairns previously discussed the risk to Alaska's banking system

Senate Committee of  
Joint Committee  
on Economic Recovery

that would be caused if Alliance Bank would fail and the resulting decline of real estate values. They feel the state should take action to alleviate the problem. When they made the original proposal, they asked for an equity investment from the state of \$15 million with allowance for further borrowings. They are now asking for an appropriation limited to \$15 million, but it will only allow them to run the trust for one year. If, during that year, they are able to generate sufficient income from sales of the trust, without collapsing the local market, they will come back with a progress report. Then, if necessary, they will request the state to lend money to the trust.

They feel any action by the state should be conditional upon the FDIC agreeing to participate in the program. Otherwise, the FDIC might be expecting other opportunities for it to sell to third parties, which will be funded by some state agency. In responding to expressed concern that Hallwood, after its 18 month trust commitment, might put its shares in Alliance Bank back to the FDIC, Mr. Gambiner said Hallwood would be contractually obligated to run the trust for the ten year life of the trust. It is in their interest to run the trust because of their large investment in Alliance Bank. If they no longer have that investment, they would propose they pay a fee based on the negotiated pricing structure laid down between FDIC and the 27 beneficiary banks in the 27th Trust. They would then be compensated for the work they were doing, and would continue with their contractual obligation, unless it was felt they should be replaced.

Number 136

Senator Sturgulewski asked about their interest in Alaska Housing Finance Corporation (AHFC). Mr. Gambiner said they were not suggesting that the proposal be conditional upon AHFC joining in, since the state controls AHFC through its own authority. They have talked with Commissioner Tony Smith, Department of Commerce and Economic Development (DCED), and Mr. Gambiner thought the Commissioner was in favor of the project and he is to advise the Governor of his recommendation.

Number 158

Senator Josephson commented he had drafts of CSSB 408 () and CSSB 409 () for committee review. Mr. Gambiner had proposed amendments to the drafts as follows: CSSB 408 (), page 1, line 27, delete "corporations that have interests in" which would give them the power to take over failing banks rather than real estate portfolios.

They discussed whether the appropriation amount should be \$15 million or \$45 million in CSSB 409 () page 1, line 10.



Mr. Gambiner said the cost of the operation will depend on how much property is managed in the trust. If they assume the trust is limited to Alliance Bank, FDIC and AHFC's portfolios, they think the cost will be \$15 million a year to run it. Until such time as the marketing efforts in the trust have produced an income stream that takes up the slack, they would look to the state to fund it. They intend to come back to the legislature after the first year, provide a status report, advise how much money will be needed for the following year, and make application to borrow that money in a manner similar to that laid down in the original proposal. The \$45 million is their best worst guess of how much money they would need: \$15 million equity investment and a drawdown facility of up to \$30 million. Senator Josephson referred to page 1, lines 10-11, and said the source is not referenced because it will be a judgment call as to what it will be.

Number 226

Senator Josephson asked about reimbursement to the state. Mr. Gambiner said the \$15 million would be invested in equity, the same way as any other participant (i.e., Alliance Bank or FDIC) will contribute property. That property will be valued at current market value and they will receive units or shares or partnership interest in the trust, which entitle them for distributions as these units are sold in the liquidations process. They are asking the state to provide liquidity in the form of cash and asking the beneficiary participants to put in their various properties. The state's money will be used to pay operating costs (management expenses) until such time as income is generated from marketing the assets. He explained the method by which the state would get reimbursed.

Number 275

Senator Sturgulewski commented that U.S. Senator Frank Murkowski informed her that they have requested the Federal Home Loan Bank Board in Seattle, Washington, to take an independent look at our situation and the report will be sent to his office on March 14, 1988.

Number 295

Frank Cox, Small Business Administration (SBA), came to the table. Senator Halford said the bill, SSSB 471, represents the re-write of the original bill with input from AIDEA and Mr. Cox. The bill establishes a program in AIDEA to guarantee business loans and to refinance debt. In response to a question from Senator Coghill, Senator Halford said the business assistance fund will be established with the existing funds in AIDEA.

Mr. Cox said that the legislature may be seeing a little paranoia on the part of AIDEA and they are being careful because they are afraid the banks will rip them off. He has been doing loans for 18 years and the SBA guarantees 90%.

Number 336

Senator Sturgulewski commented that it has been mentioned that this is a bank bailout approach and asked him to answer several questions pertaining the SBA loans. Mr. Cox said there would not be any advantage to a person, who qualifies for his program, to use AIDEA. SBA would guarantee 85%; and get an answer in five days whereas it takes the state 5-6 months to respond. Concerning SBA's delinquency rates, he stated the matter is difficult to address as FDIC has possession of approximately 35% of his portfolio. Before FDIC took some loans, the delinquency rate was 12% (60 plus days); his charge-off rate is 3.2% (loan losses on ten year continuum). AIDEA's 75-80% rule would not change.

Senator Halford said a question was raised about whether they should apply to new loans as well as refinanced. AIDEA was interested that they not apply to refinance. Mr. Cox favored the inclusion of the refinance, not to allow people to pull all the equity from the loans and run, but to help someone by restructuring their payments. Those are the loans, limited to 20 years, that help residents; new loans help those that stepped off the plane last year. SBA does refinance, but only to the benefit of the borrower and not to the bank. Many SBA loans are not real estate based; but working capital. It's much easier to collateralize real estate than working capital.

Number 407

Senator Jones asked whether the banks will take advantage of AIDEA. Mr. Cox responded that it is up to AIDEA to say "we're not interested in doing this deal." If they are credit-worthy, AIDEA should be helping them. Senator Halford explained why it is to the advantage of the bank to refinance good loans: they can take the AIDEA guarantee and sell the loan to someone else, which gives them the capital to operate and make loans.

In response to Senator Coghill's comment about the need to refinance soft assets (working capital, inventory), Mr. Cox said AIDEA could only make loans on hard assets in the past. Senator Halford outlined the method for which AIDEA expands its capital base.

Number 454



Senator Faiks made two points: (1) the bill expands the number of players that can go to outside markets to bring money into the state; and (2) recommended language inserted, if the committee agreed, to include consideration of what's been called soft assets. Would this expand AIDEA's statutory authority and create a major re-write of the bill. Senator Rodey said those actions would expand its authority. Mr. Cox added it could be addressed on a percentage level such as ability to withdraw 10% (or whatever) of equity to be used as working capital.

Senator Halford said the reason AIDEA doesn't allow loans on soft assets is they are dealing with the bond market; it doesn't make sense to go through the bonding process for a short-term working capital loan. Likewise, it doesn't make sense to go through the guarantee process for a loan that is based on short-term asset. He raised the question of what happens during foreclosure: AIDEA felt that during foreclosure, the principal should be paid first. The banks disagree with it and said, essentially, the attorneys' fees and cost of the foreclosure should be paid first, and then the principal. Mr. Cox said SBA gives the bank 90 days, and if they choose, SBA will buy it. At that point, SBA gives the bank the choice to liquidate; if not, SBA will do it. If the bank liquidates, SBA takes some responsibility for controlling the attorneys' fees and other cost. They have not had trouble in telling the bank that SBA will allow \$10,000 in attorneys' fees and that's it. SBA's regulations address the process.

Number 494

Senator Josephson said the 90% figure has been criticized on the basis of it being a bank bailout and the state would be better to reduce the percentage. Mr. Cox said it depends on who is running the program and what type of credit judgments are being made. SBA is dropping its percentage from 90% to 85%.

Senator Coghill asked what percentage of SBA loans are for inventory and accounts receivables. Mr. Cox answered about 30% of loans are specifically for operating capital.

Senator Faiks asked, if possible, could Mr. Cox address the differences in their working relationship with banks than that of AIDEA. Mr. Cox said they assume the banks will act legally with them and normally everything is handled in the documentation.

Number 540

Senator Rodey addressed the inclusion of soft assets for purposes of AIDEA loans. He stated AIDEA was set up as a secondary market, not to deal directly with anyone, due to



the state's delinquency rate (about 40%). When you move into the area of relatively unsecured loans, it has to be carefully considered, as AIDEA was not set up for that purpose. Responding to a question from Senator Coghill, Senator Rodey said the AIDEA bond program does have a restriction on soft asset loans. Mr. Cox added there is equity there that can be recaptured for working capital.

Senator Sturgulewski asked if the SBA had a debt ceiling. Mr. Cox said there was a national limit, maybe \$6.5 billion, that has only been reached twice. She asked if there was any flexibility for SBA to service the market rather than our creation of a loan program. Mr. Cox said the SBA is responding; part of the problem is that AIDEA has much of the collateral, which leaves little collateral for anyone to base a loan. Senator Rodey added that bond covenants are involved.

Number 580

In responding to a inquiry from Senator Sturgulewski about appropriating funds for capital reserves, Mr. Cox stated AIDEA has about \$300 million, with profits of almost \$20 million last year and \$30 million the year before, maybe they should use that.

In discussing SBA's strict guidelines, Mr. Cox said their decline rate is about 5-6 times as high; it used to be less than 1%, and they have had months where they have declined up to 30%.

Senator Sturgulewski said they've heard charges the state program has been subject to political pressure and asked if that was a problem in SBA. Mr. Cox stated it is only a problem if the person that is running the program responds to it.

Number 600

Senator Josephson said, in a situation where the originating bank fails, does it create special problems. Mr. Cox answered that it does if FDIC takes the loans. They have several hundred loans now in the hands of FDIC and they know they are current; but the FDIC, as trustee for the debtor, has them in an account. Because they are in the secondary market, SBA will end up repurchasing the loans. In particular, if you send a payment on a loan, the FDIC puts it into a holding account and doesn't remit the payment to the purchaser in the secondary market. The secondary market wants to get payment on the guarantee. The FDIC doesn't care if they fail; they want money.

Senator Halford recommended the committee support the bill as part of its legislative package.

Tape One, Side Two  
Number 652

The committee generally discussed the shifting of responsibilities from banks to AIDEA. Senator Rodey commented that banks are only servicing agencies; they get a fee from AIDEA. The bill does not shift the burden; it remains on AIDEA.

Senator Halford said the banks would probably like to shift the burden to AIDEA, if they could. The major benefit is drawing capital into the state. The bank may sell some of its good loans which they would not have been able to sell without the guarantee; then take the money from the sale and make more good loans. The banks are trying to bail out their bad loans with their good loans and good business. If we can expand their capacity on the positive side, we can help them carry their negative side.

The committee discussed Senator Coghill's concerns about inclusion of soft assets in the bill. Senator Faiks recommended that the bill be considered part of the package as is, since she has another bill which allows AIDEA to take up to 25% equity in refinancing loans. That bill would be a better vehicle for this issue.

Senator Rodey moved and asked unanimous consent that the bill be considered as part of the package. Hearing no objections, it was so ordered.

Number 820

At the request of Senator Zharoff, the committee heard from Nancy Gross, City Manager; Gary Daily, Port Director; and Dennis Robinson, City Council Member and Ounalashka Corporation Board member, of Unalaska, Alaska, concerning a fisheries proposal.

Mr. Daily explained home porting for the American factory troller, the Alaskanization of this industry and what it means to the state and residents. Currently, there are 41 Alaska factory trollers, mostly from Seattle. A factory troller is a vessel approximately 200-300 plus feet in length, the retrofits and costs range from \$17-35 million. To show the significance of the value in terms of jobs and income, the Port of Seattle recently appropriated \$200 million to upgrade its maritime moorage facilities to ensure they retain the factory trollers there. The 41 factory trollers give 240 persons/per troller with jobs which equates to just over 9,800 jobs. In 3-4 years, they are going to double the amount of trollers, resulting in excess of 22,400 jobs.



He continued to provide a history of the bottomfish industry in the state, and explained the chart detailing the fisheries' resources. U.S. Customs and Immigration are located in Dutch Harbor. He then noted the values of state and international fisheries, specifically 1.2 million metric tons of bottomfish, per exvessel value, exceeds \$2 billion; and the impact the industry has on jobs and support services. He felt the key to unlocking the Seattle monopoly was to provide a shore-based facility; they have \$60 million worth of business in a 10,000 foot area in Dutch Harbor which involves relations with 14 nations.

Number 988

Senator Sturgulewski asked about the monetary request. Ms. Gross pointed out that fisheries of the Bering Sea, particularly the bottomfish, per every 5% of revenue from the industry, can attract \$100 million into the state.

Senator Faiks asked how that money arrives in the state. Mr. Daily responded it includes shops, cold storage, processing, cargo, trans-shipment, jobs, fueling, etc. Cold storage in Japan is eight times as expensive than Alaska, and there are three requests for construction for facilities in Unalaska. He said fishing crews are hired out of Anchorage.

Senator Faiks commented if the state could capture 5% of the market, there would be a spin-off of \$100 million in both capital and salary investments, but it would not be every year.

Number 072

Senator Josephson referred to the proposal and commented it did not include the specifics for project description #2, and asked what is necessary to make Anchorage the service center they discussed. Ms. Gross answered that that section of the proposal represents the research Anchorage needs to do to get marketing plans.

Senator Halford asked the total budget of Unalaska and how much is spent on debt service. Ms. Gross said the total general fund budget is about \$4.0-4.5 million annually; they are maximized out on bonds which is one of their problems. They have been carrying, on the books, a population of 1,922 for several years, and this year, C&RA decided their population was 1,331. The Bond Bank will not talk to her; and she looked at an assessment district and was told that 35% of the land is not assessable because it is undeveloped land granted to the village corporation under the ANCSA.



In response to a question from Senator Halford about using revenue bonds for the dock, Ms. Gross responded the problem is the users have said when the city gets the facility, they will sign long-term leases for use; however, the city can't get the revenue bonds until they have the agreements.

Number 123

Senator Jones referred to the renewable resource aspect of fishing and asked how a sustained yield could be guaranteed. Ms. Gross said federal enforcement was necessary, such as the Coast Guard patrolling the area. However, the biological aspects of the waters make it so nutrient rich along the coast and shelf that the Japanese, who have fished the area for 20 years, have not impacted the yield.

Senator Sturgulewski compared the ports of Southeast (120-122 tourship stops/year) and this port which gets over five times that amount. She said the committee would not be able to take any action on the request.

Ms. Gross said there was a House Bill that addresses the request. In response to a question from Senator Halford, Ms. Gross commented their annual budget does not include the school budget; simply operating the electric, water, sewer, utility, port, airport and terminal, etc. that are general operations.

Number 163

The committee decided the next meeting would be a work session on bills and proposals already presented for discussion. There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 6:31 p.m.

5-1863B

Cook

3/16/88

MAR 16 1988

Revised

Original sponsors: Kelly and Sturgulewski

IN THE SENATE

CS FOR SENATE BILL NO. 408 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

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

\* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose of the Alaska stabilization assistance program is to promote the stabilization of real property values in the state.

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to make loans or investments to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1998, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the \_\_\_\_\_.

(c) To encourage institutional lenders, state or federal agencies, and other institutions not to attempt to dispose of real property in the state until the real estate market becomes more stable, the authority may

(1) enter into contracts to provide for the management of real property in the state that has been or could be foreclosed upon or otherwise acquired through actions taken on defaulted loans;

(2) acquire interests in

(A) part-performing or nonperforming loans secured by real property in the state; or

1 (B) loans acquired by an institution or federal or state  
2 agency as a result of a bank failure in the state.

3 (d) Contracts entered into by the authority under (c) of this section  
4 may provide for the management of property only through June 30, 1998.

5 \* Sec. 2. This Act is repealed July 1, 1998.

6 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).  
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# STATE PROPERTY EXEMPTIONS IN BANKRUPTCY

|                                                            | <u>1962</u>                                 | <u>1971</u> | <u>1972</u> | <u>1974</u>          | <u>1976</u> | <u>1982</u>         | <u>1986</u>        | <u>FEDERAL<br/>EXEMPTION</u> |
|------------------------------------------------------------|---------------------------------------------|-------------|-------------|----------------------|-------------|---------------------|--------------------|------------------------------|
| <b><u>LIMITED VALUE EXEMPTION</u></b>                      |                                             |             |             |                      |             |                     |                    |                              |
| Books<br>Pictures<br>Musical Instruments                   | 300                                         |             |             |                      |             | 1,500 <sup>2</sup>  | 1,650 <sup>2</sup> | 4,000 <sup>8</sup>           |
| Wearing Apparel *                                          |                                             |             |             |                      |             |                     |                    | 4,000 <sup>8</sup>           |
| Watches & Jewelry                                          | 200                                         |             |             |                      |             | 500                 | 550                | 500                          |
| Articles for Trade/Profession                              | 1,800                                       | 2,500       |             |                      |             | 1,400               | 1,540              | 750                          |
| Household Goods<br>Furniture                               | 1,200                                       |             |             |                      |             | 1,500 <sup>2</sup>  | 1,650 <sup>2</sup> | 4,000 <sup>8</sup>           |
| Pets                                                       |                                             |             |             |                      |             | 500                 | 550                | 4,000 <sup>8</sup>           |
| Automobile                                                 | (Exempt under Trade/Profession)             |             |             |                      |             | 1,500 <sup>3</sup>  | 1,650 <sup>6</sup> | 1,200                        |
| Heirlooms                                                  |                                             |             |             |                      |             | 1,500 <sup>2</sup>  | 1,650 <sup>2</sup> |                              |
| Earnings (within 30 days)                                  | 350 (Head of Household)<br>200 (Single Man) |             |             |                      |             |                     |                    |                              |
| Weekly Net Earnings<br>Cash & Other Liquid Assets          |                                             |             |             | 25%/114 <sup>1</sup> |             | 175<br>700          | 193<br>770         | 25%/ <sup>10</sup>           |
| Weekly Disposable Income<br>Increased Cash & Liquid Assets |                                             |             |             |                      |             | 275<br>1,100        | 303<br>1,210       | Not<br>Specified             |
| <b><u>HOMESTEAD EXEMPTION</u></b>                          |                                             |             |             |                      |             |                     |                    |                              |
| Debtor's Dwelling (Realty)                                 | 8,000                                       |             | 12,000      |                      | 19,000      | 27,000 <sup>4</sup> | 29,700             | 7,500                        |
| Debtor's Dwelling (Mobile Home)                            |                                             |             | 8,000       |                      | 12,000      |                     |                    |                              |
| <b><u>PROPERTY EXEMPTION W/O LIMITATION</u></b>            |                                             |             |             |                      |             |                     |                    |                              |
| Unmatured Life Insurance &<br>Annuity Contracts            |                                             |             |             |                      |             | 5,000 <sup>5</sup>  | 5,500 <sup>7</sup> | 4,000 <sup>9</sup>           |

TONY  
SMITH

# MEMORANDUM

Sen. Sturgulewski  
State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various  
Economic Recovery  
Proposals

FROM:

  
J. Anthony Smith  
Commissioner  
Department of Commerce and  
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.
2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state



pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate \$25 million if we are to do \$100 million in guarantees for the program to have the impact desired. We recommend a \$100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.
4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.
5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential \$3 million item. Hence, a threshold question is identifying a source of funding.

In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of \$75-80,000, with an interest rate of 10-12%. Consider the following figures:

| <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Payment</u> |
|--------------------|----------------------|----------------|
| \$ 80,000          | 10%                  | \$702          |
| 125,000            | 6%                   | 749            |
| 50,000             | 6%                   | 300            |

In one case, a borrower can buy much more "house" for approximately the same payment, whereas in the other case, a borrower could buy a \$50,000 condo (which was likely originally an \$80,000 condo) for a payment of less than half of the original. Properly targeted this could help stabilize price and reduce the inventory of foreclosed properties. It is our belief that the "equity underwater" problem could be stabilized in targeted projects by offering financing opportunities for full prices sales.

Other changes would deal with AHFC's role in disposing of its real estate portfolio. For instance, if current plans are successful, AHFC could well own entire condo projects. These projects could eventually be sold as condos, but they might also be sold as apartment buildings. If AHFC were able to manage the building (via a contract) and perhaps provide financing to the ultimate buyer, the total loss might be much less. Possibly other types of nonowner-occupied financings to help in disposal of foreclosed properties should be added.



More flexibility would be most helpful in workout situations. HOAP will be sufficient for a great number of troubled borrowers, others will need far more assistance. AHFC, in conjunction with the applicable insurance companies, should be able to provide assistance to these borrowers in a variety of ways -- much lower interest rate, deferral of principal payments, etc. To hold down the ultimate cost of the program and to provide more assistance than is needed, AHFC should be able to design various approaches to recapturing some of this assistance if the property ever appreciates in value beyond its original loan amount.

We have discussed with various individuals the thought of establishing a subsidiary corporation of AHFC which would be granted broader powers to address critical issues in Alaska's current housing market. Such a subsidiary may be charged with acquisitions and/or eminent domain powers to achieve public purposes. Further, it could facilitate the consolidation of condominium owners to allow for the conversion of other condominium projects to other uses, including apartment complexes and public sector housing. We believe all such ideas should be explored in detail and are appropriate items to try to adopt this legislative session.

Lastly, AHFC should be given broader investment powers so that it could participate in acquisitions such as Hollywood Vista and Willow Park when it makes economic sense for the agency.

7. HB 433 -- Moratoriums on Judicial and Nonjudicial Foreclosures -- This is intended as a parochial attempt to preserve for Alaskans a greater opportunity to preserve their residence at the expense of lenders, a good portion of whom are nonresident. Similiar legislation was adopted in two mid-western states as responses to the farm crisis. Their experience should be studied in detail before passage of this legislation.

While the approach has appeal on its surface, it appears to also generate considerable technical questions, especially with respect to bonded indebtedness of various Alaska debt issuers. Further, as probably the largest financier of Alaska real estate, various state entities, including the retirement funds, may be injured by this approach. We are also concerned about the potential ramifications if "outside" lenders respond to passage of this legislation by further restricting access of Alaskans to secondary money markets.

We are also confused by the language which suggests that a non-judicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.



March 7, 1988

8. SCR xx -- Loan Approval Withheld for New Construction -- The Department has been asked to comment on a draft of this resolution. We do not agree with this approach. We do agree that financing agencies must be sensitive to the oversupply of several categories of real estate and should coordinate their financing policies to assure that they do not inadvertently exacerbate a serious problem. We also believe that the inventory of some classes of property may require additional construction to meet a growing demand in the near term. It would be much more appropriate, from our perspective, to allow market forces and coordinated state policy development, such as through the Alaska Housing Marketing Council, to address the concerns expressed in this draft resolution. For example, there are market segments which would be severely paralyzed by a generalized moratorium. It is more appropriate to add private sector representatives to the Housing Market Council.

We feel any response of this nature should be in the manner in which municipalities issue building permits and carry out inspections. As Chairman of AHFC, it seems indisputable that many of AHFC's problem projects were not inspected.

#### Other

Bridge Bank and Hallwood Trust - we conceptually support these, as well as other initiatives to have assets held by the FDIC or banks managed to minimize the adverse impact on the economy. There needs to be consideration given to both the management difficulties and the carrying costs which will be incurred. In addition, we need to recognize that any state guarantee or stand-by letter of credit could most likely be used.

There are three possible options at this time. Any one, or a combination of these, may work. They are the Anchorage Economic Development Corp., the Sealaska REIT group, and the Hallwood Trust. Should the state choose to participate in one of these structures, it should be prepared to contribute cash as well as properties. Cash flows to fund such an entity will not likely, in the short run, be sufficient to meet expenses. Hence, initial capitalization will be important to help assure success -- understanding that success includes the avoidance of increases of property liquidations.

#### Distribution

Garrey Peska, Chief of Staff, Office of the Governor  
Bob Evans, Legislative Liaison, Office of the Governor  
The Honorable Jan Faiks  
The Honorable Max Gruenberg  
The Honorable David Donley  
Gregg Erickson, Office of Management & Budget,

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5-1864B  
Cook  
3/16/88

Original sponsors: Kelly and Sturgulewski

*BA*Funding Information

General Fund \$

Other Funds \$

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 409 ( )

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Alaska  
7 stabilization assistance fund; and providing for an  
8 effective date."

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

10 \* Section 1. The sum of \$15,000,000 is appropriated from the \_\_\_\_\_  
11 \_\_\_\_\_ to the Alaska stabilization assistance fund.

12 \* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the  
13 \_\_\_\_\_ on July 1, 1998.

14 \* Sec. 3. This Act takes effect on the effective date of a version of  
15 an Act enacted by the Fifteenth Alaska State Legislature establishing the  
16 Alaska stabilization assistance fund.

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