

MISCELLANEOUS INFORMATION

FILE 2

MASTER

Alaska State Legislature

SENATOR
ARLISS STURGULEWSKI

Chairman, Senate Community and Regional Affairs Committee
Vice-Chairman, Senate Judiciary Committee
Member, Senate Resources Committee



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ANCHORAGE, ALASKA 99508

While in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-1818

Senate

MEMORANDUM

March 21, 1988

* Revisen MARCH 28, 1988

TO: All Members
Senate Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski *AS*

RE: Existing and proposed legislation

I have reviewed the existing and proposed legislation before the Senate Committee on Economic Recovery and would suggest that we concentrate on those specific pieces outlined in this memo.

I have used the following guidelines in the selection of this legislation.

1. The December 1, 1987 Briefing Paper by the Institute of Social and Economic Research (ISER) suggests several important considerations.

A. That state spending is part of the current economic problem because of high state budgets in the early 1980's. They stated, "Unless it [state spending] can be sustained [it] will have a destabilizing impact on the economy." We know now that we cannot sustain those high budgets with our present income.

B. That "the recession is progressively dissipating and is likely to end over the course of the coming year." If this view is correct, the state must be cautious in its response to the economic recovery to avoid disrupting the natural market forces and simply prolonging the adjustment period.

C. That "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." The state has a limited ability to sustain increased spending, however, all basic industry (oil, fish, timber, and mining) in the state show healthy signs of increased growth in the near future and will aide the economic recovery. This, of course, is the typical economic stimulus in most economies not government spending.

2. State financial programs such as AHFC, AIDEA and the various state loan programs have significant impact on the financial health of the economy because of the large dollar contribution that they represent. They should exercise maximum flexibility in their response to distressed borrowers without the state simply providing more funding which it has only a limited ability to do.

3. Because of the limited funding available from the state, it should encourage private sector financial institutions to respond to the economic recovery. This can be accomplished in two ways, one would be to assist private financial institutions in the refinancing of troubled loans; and two, to encourage new loans in businesses that will aide the economic recovery through job creation and economic growth in the state.

4. The distribution of cash into the economy has an immediate effect on the economy. The jobs bill that was recently passed will soon be having a positive impact throughout the state. Another source of cash is the permanent fund dividend distribution.

I would recommend that we endorse the following specific legislation and concepts for appropriate standing committee review:

A. The concept of a "Bridge Bank" is contained in SB 408. This legislation offers a potential for relieving the pressure of property management for private financial institutions and some state agencies. However, it should be structured to encourage private sector management, limited state contributions and provisions for eventual repayment of the contributions, to the state.

* STATUS: ENDORSED BY COMMITTEE 3/22/88

B. SB 471, which the committee endorsed previously, has several elements that I feel are beneficial to the economic recovery process. It will need further refinement in the Senate Finance Committee and I would recommend that they review setting a cap or maximum limit to the total amount of loan funds that can be guaranteed by AIDEA. This will prevent uncontrollable liability at some future date. I would also recommend that AIDEA develop guidelines for allowing private financial institutions to offer refinanced debt packages as well as guidelines for new business loans that will stimulate economic growth. Finally, in order to evaluate its progress, I would suggest a sunset date on the AIDEA loan guarantee program.

* STATUS: ENDORSED BY COMMITTEE 3/22/88

C. SJR , Urging a change under the IRS Code. This resolution petitions the IRS to review its policy of taxing forgiven negative equity in cases of foreclosure.

* D. HJR 72 , Relating to residential real estate. This resolution specifically petitions state loan programs and lending agencies to use the maximum flexibility at their disposal in order to keep their portfolios as active as possible.

* SUBCOMMITTEE RECOMMENDATION: (NOT FORMALLY INTRODUCED)

E. ~~HJR~~ , Willow Park Demolition. Calls for the demolition of the substandard Willow Parking Housing Project with funding for the demolition spelled out in an agreement between the state and municipality. It further

calls upon the federal government to fund and carry out the relocation of the involved dislocated families. This project, in addition to being substandard, poses serious health concerns because of asbestos insulation.

F. HB 432, Authorizing the AHFC to accept trades in certain cases. This legislation would allow individuals to trade into mortgages of greater/lesser obligation with AHFC. This would allow borrowers with greater resources to purchase homes with larger mortgages making those loan packages active and those borrowing on the margin to trade into more affordable housing, once again reactivating those loans. The Labor and Commerce amended version includes a provision for reducing negative equity that should be reviewed in the committee hearing process.

* G. HB 550, "Authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date." Allows the Housing Assistance Section to modify home loans in certain cases.

* H. HB 549, Notice requirements on a Deed of Trust." Requires lender to inform the borrower in the note securing the loan of all methods of recourse in the event of default.

I. Investigate early dividend and/or increased dividend. Request the Alaska Permanent Fund managers to present the opportunity to provide an early dividend or a substantially higher dividend than currently projected for the year 1988.

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).

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

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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
11 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
13 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
15 an Act enacted by the Fifteenth Alaska State Legislature establishing the
16 Alaska stabilization assistance fund.

IN THE SENATE

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

SENATE BILL NO. 471

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing a program in the
Alaska Industrial Development and Export
Authority to guarantee business loans and
to refinance debt; and providing for an
effective date."

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

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

ARTICLE 6A. BUSINESS ASSISTANCE PROGRAM.

* Sec. 44.88.500. BUSINESS ASSISTANCE FUND. The business
assistance fund is established in the authority from
appropriations for the purpose. Subject to the requirements of
AS 44.88.500 - 44.88.599, the authority may use money in the
fund to guarantee loans, including loans made to refinance
existing loans, to business that qualify under AS 44.88.510 and
apply under AS 44.88.520.

* Sec. 44.88.510. APPLICANT QUALIFICATIONS. A business
enterprise may apply for a loan guarantee under AS 44.88.500 -

44.88.599. The authority may establish additional applicant qualifications by regulation and these qualifications may vary depending upon the type of business the applicant is engaged in.

* Sec. 44.88.520. APPLICATION. An applicant for a loan guarantee shall provide information required by regulation of the authority, which may include an economic benefit analysis prepared by a person acceptable to the authority together with other information.

* Sec. 44.88.530. POWERS RELATING TO LOAN GUARANTEES.
The authority may

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

(2) adopt regulations to implement AS 44.88.500 - 44.88.599;

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

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

(5) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an interest in the fund; and

(6) exercise any other power necessary to implement AS 44.88.500 - 44.88.599.

* Sec. 44.88.540. CONDITIONS OF LOAN GUARANTEES. (a) The authority may guarantee a loan under AS 44.88.500 - 44.88.599 if the

(1) loan is commercially reasonable, contains amortization provisions satisfactory to the authority, and is secured by adequate collateral, and if the net cash flow from the borrower provides adequate coverage for the debt service on the loan;

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

(3) loan is originated with and serviced by a state chartered or federally chartered financial institution;

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

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

(b) The authority may provide a guarantee from the fund for up to 90 percent of a loan that qualifies under AS 44.88.500 - 44.88.599. The ratio of the guarantee to the outstanding principal of the loan shall not increase over the term of the loan.

(c) The authority may not guarantee

(1) the payment of interest on the guaranteed portion of a loan; or

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

* Sec. 44.88.550. INTEREST. The maximum interest rate on a loan guaranteed by the authority is

(1) for a guarantee of 80 percent or more of the loan, one and one-half percentage points above the prime rate, as determined by the authority, on the day the loan guarantee is made; and

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

* Sec. 44.88.560. DEFAULT OR FORECLOSURE. (a) Amounts received toward satisfaction of a default on a loan guaranteed under AS 44.88.500 - 44.88.599 shall only be applied to pay principal of the loan until the entire principal balance of the loan has been repaid.

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

* Sec. 44.88.570. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fund the foreclosure expense account.

(b) The authority may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans guaranteed or refinanced under AS 44.88.500 - 44.88.599 or to defray expenses incurred during a foreclosure proceeding after a default.

* Sec. 44.88.580. PREREQUISITE FOR OTHER LOANS.

Notwithstanding other provisions of law, a business enterprise that qualifies under AS 44.88.510 to apply for a loan guarantee under AS 44.88.500 - AS 44.88.599 shall apply for a loan guarantee before it may apply for a direct loan of state money under any other state loan program. Only after an application for the guarantee of a loan to be used for a particular purpose is rejected under AS 44.88.500 - 44.88.599 may a business enterprise apply for a direct state loan for that purpose.

* Sec. 44.88.599. DEFINITIONS. In AS 44.88.500 - AS 44.88.599.

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

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

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

1 IN THE SENATE

2 SENATE JOINT RESOLUTION NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 Urging a change under the Internal
6 Revenue Code in the tax treatment of the
7 transfer of a residence subject to a
8 mortgage that is a recourse loan when
9 the indebtedness on the residence is
10 discharged through foreclosure, repos-
11 session, or surrender of the property.

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

13 WHEREAS, under current provisions of the Internal Revenue Code and
14 pertinent regulations defining "gross income," a voluntary foreclosure,
15 repossession of real property, or surrender of property that serves as
16 collateral for an indebtedness is treated as a disposition similar to the
17 sale or exchange of real property; and

18 WHEREAS, if real property is transferred through foreclosure or repos-
19 session to satisfy a debt secured by the property or the property is sur-
20 rendered, the property owner may realize a gain or loss; and

21 WHEREAS in a foreclosure, repossession, or surrender, the difference
22 between the mortgage debt discharged and the fair market value of the
23 property given up is called "discharge of indebtedness" income; and

24 WHEREAS "discharge of indebtedness" income is taxable to the real
25 property owner as ordinary income if the loan discharged is a "recourse
26 loan," in which the owner is personally liable for repayment of the loan,
27 if the fair market value of the property foreclosed, repossessed, or
28 surrendered is less than the amount of the debt discharged, and if the
29 lending institution forgives payment of the balance of the underlying debt;

1 and

2 WHEREAS many Alaska homeowners have mortgages that are recourse loans
3 and

4 WHEREAS, having only a small equity in their residences and unable to
5 make current monthly mortgage payments in a declining economy, a number of
6 these homeowners have had their residences foreclosed on or repossessed;
7 and

8 WHEREAS, as an alternative to foreclosure or repossession, other
9 homeowners in similar circumstances have surrendered the mortgaged property
10 to the lending institution; and

11 WHEREAS, in a substantial number of the loans of these homeowners, the
12 fair market value of the property foreclosed on, repossessed, or surren-
13 dered is substantially less than the amount of the indebtedness discharged,
14 giving rise to a "discharge of indebtedness" income; and

15 WHEREAS, even after these homeowners lose their residences through
16 foreclosure, repossession, or surrender, the Internal Revenue Code and its
17 regulations may apply to impose substantial liability for taxation on the
18 homeowner's discharge of indebtedness income; and

19 WHEREAS the Alaska Legislature believes that the loss of a residence
20 through foreclosure, repossession, or surrender due to the homeowner's
21 financial problems in a time of economic uncertainty combined with incur-
22 rence of tax liability for that loss is inequitable and works a substantial
23 hardship on these families;

24 BE IT RESOLVED by the Alaska State Legislature that the Congress is
25 urged to amend the applicable Internal Revenue Code provisions to except
26 from treatment as income the liability of taxpayers incurring "discharge of
27 indebtedness" income tax liability under a recourse loan on foreclosed,
28 repossessed, or surrendered residential property in these circumstances.

29 COPIES of this resolution shall be sent to Lawrence B. Gibbs.

1 Commissioner of the Internal Revenue Service; and to the Honorable Te
2 Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable
3 Don Young, U.S. Representative, members of the Alaska delegation in
4 Congress.
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BY THE RULES COMMITTEE BY
REQUEST OF THE HOUSE MEMBERS
OF THE JOINT COMMITTEE ON
ECONOMIC RECOVERY

1 IN THE HOUSE

2

HOUSE JOINT RESOLUTION NO. 72

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

Relating to the residential real estate

6

market.

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

8

WHEREAS some areas of the state are experiencing a severe economic
9 crisis as evidenced by bankruptcies, foreclosures, business failures, and
10 the loss of homes and property values; and

11 WHEREAS the state is experiencing a difficult economic period, espe-
12 cially in the residential real estate market, and many persons are finding
13 it difficult to meet their financial obligations during these times; and

14 WHEREAS keeping people in their homes and facilitating the purchase
15 and sale of homes serves an important public purpose and is financially
16 beneficial to both the borrower and the lender; and

17 WHEREAS borrowers are anxious to continue to meet their financial
18 obligations, but there is a significant number of individuals who are under
19 severe risk of being unable to do so; and

20 WHEREAS many borrowers would be able to meet their financial obliga-
21 tions if various forms of debt restructuring were made possible; and

22 WHEREAS debt restructuring requires the cooperation of the various
23 parties to each real estate loan, including the borrower, the loan origina-
24 tor, the Alaska Housing Finance Corporation or other loan packager, the
25 secondary purchasers of the loans, and the various loan insurers; and

26 WHEREAS the state's economy would be greatly helped if the financial
27 institutions of the state would adjust their lending and collection pol-
28 icies to the present needs and abilities of their customers by using more
29 flexible approaches to stabilize and improve the economy of the state; and

1 WHEREAS present financing packages available to residential real
2 estate borrowers do not provide adequate market liquidity or ability to
3 buy, sell, or trade properties in today's economic circumstances in which
4 debt balances on the properties are nearly equal to or greater than the
5 values of the property; and

6 WHEREAS, in order for residents of the state to meet their financial
7 obligations, the parties to residential loans in the state must be willing
8 to negotiate more creative financing terms and conditions for the benefit
9 of all concerned; and

10 WHEREAS to some extent state agencies and the financial institutions
11 in the state have not yet developed a coherent policy that addresses the
12 current economic crises; and

13 WHEREAS the likelihood of loss or default is lessened if a market is
14 made more liquid, something that will benefit all participants in real
15 estate loans; and

16 WHEREAS the ability to buy, sell, and trade properties in a market
17 that has very high loan-to-value ratios can only be accomplished through
18 innovation and cooperation of the various parties to a real estate loan;
19 and

20 WHEREAS the Alaska Housing Finance Corporation is presently working
21 with the legislature, lending institutions, federal governmental agencies,
22 and private mortgage insurers to find creative ways of refinancing existing
23 mortgages and managing recent acquisitions in the residential real estate
24 market;

25 BE IT RESOLVED by the Alaska State Legislature that the various finan-
26 cial participants in the Alaska real estate market, including the Alaska
27 Housing Finance Corporation, the Department of Commerce and Economic Devel-
28 opment, the Department of Community and Regional Affairs, the Department of
29 Revenue, the Alaska Permanent Fund Corporation, and the various loan

1 servicers, guarantors, and insurers are urged to cooperate in developing
2 innovative ways to restructure debt and to buy, sell, and trade properties
3 for their collective benefit; and be it

4 FURTHER RESOLVED that economic stabilization of the residential real
5 estate market be accomplished with the joint cooperation of the Alaska
6 Housing Finance Corporation, the Department of Commerce and Economic Devel-
7 opment, the Department of Community and Regional Affairs, the Department of
8 Revenue, and the Alaska Permanent Fund Corporation and other agencies of
9 the state and of lending institutions in the state as well as the Federal
10 Housing Administration, the U.S. Department of Housing and Urban Develop-
11 ment, the Veterans Administration, the Federal National Mortgage Asso-
12 ciation, the Government National Mortgage Association, the Federal Home
13 Loan Mortgage Corporation, and private mortgage insurers; and be it

14 FURTHER RESOLVED that the legislature fully supports efforts on the
15 part of the Alaska Housing Finance Corporation, the Department of Commerce
16 and Economic Development, the Department of Community and Regional Affairs,
17 the Department of Revenue, and the Alaska Permanent Fund Corporation to
18 hold foreclosed-upon residential properties off the market in instances
19 where such action makes long-term economic sense.

20 COPIES of this resolution shall be sent to the Honorable Steve Cowper,
21 Governor; the Honorable J. Anthony Smith, commissioner of commerce and
22 economic development; the Honorable David Hoffman, commissioner of com-
23 munity and regional affairs; the Honorable Hugh Malone, commissioner of
24 revenue; Ron Lehr, executive director, Alaska Housing Finance Corporation;
25 Dave Rose, executive director, Alaska Permanent Fund Corporation; the
26 Federal Housing Administration; the U.S. Department of Housing and Urban
27 Development; the Veterans Administration; the Federal National Mortgage
28 Administration; the Government National Mortgage Association; the Federal
29 Home Loan Mortgage Corporation; and to the Honorable Ted Stevens and the

- 1 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
2 Representative, members of the Alaska delegation in Congress.



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99801

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY

March 2, 1988

COMMITTEE RESOLUTION

Relating to the Residential Real Estate Market

WHEREAS the Alaska State Building Authority, (ASBA), has proposed a comprehensive plan to relocate the tenants, and then demolish Willow Park, a 150-unit, low-rent housing project; and

WHEREAS ASBA is seeking funding for this project from federal, state and local sources; and

WHEREAS the existing structures are 35 years old and in need of extensive renovation to remedy safety code violations, and renovation would cost more than the structures are worth; and

WHEREAS removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market and help bring substantial new federal funds into a local Alaskan economy; and

WHEREAS relocation would provide an improved quality of life for the current residents of Willow Park; and

WHEREAS the complexes are functionally obsolete and a blight on the community; and

WHEREAS the Committee recognizes the value of the Willow Park demolition project and recognizes a responsibility for asbestos abatement of this state-owned facility; and

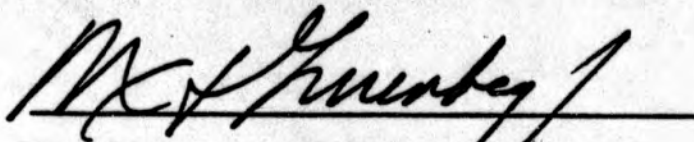
WHEREAS federal funding for relocation of the Willow Park tenants is directly related to garnering state or local funding of other costs, including asbestos abatement, demolition and site restoration.

BE IT RESOLVED that the Committee supports all efforts to obtain state, federal and local funds to complete this relocation and demolition project.

BE IT FURTHER RESOLVED that the Committee recommends that finding appropriate and sufficient state and local funding sources remain both a state legislative and municipal government priority, and that further analysis for consideration by the Legislature in upcoming appropriation actions be completed as soon as possible. The Committee further recommends that final

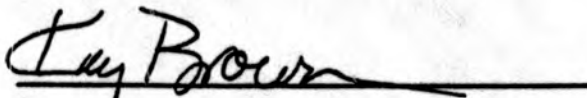
project costs exclusive of federal relocation assistance funds, once verified and funded, be spelled out in a memorandum of understanding between the state and local government by the Alaska State Building Authority subject to the conditions for appropriation the Legislature deems advisable.

Signed this 2nd day of March, 1988



Representative Max Gruenberg

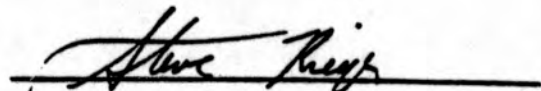
Chairman, House Joint Economic Recovery Committee



Representative Kay Brown

Co-Chairperson

Housing & Banking Subcommittee



Representative Steve Rieger

Co-Chairperson

Housing & Banking Subcommittee

Original sponsors: Donley, Ellis,
Boucher, et al.

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE HOUSE

2

CS FOR HOUSE BILL NO. 432 (L&C)

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 Corporation to accept trades in certain cases; and providing for an effective date."

7

8

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 direct 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 (d) The Alaska Housing Finance Corporation, the mortgage insurers,

1 and the mortgagor shall, in each case, work together to reduce the negative
2 equity that may be present in individual cases.

3 (e) Subject to appropriations, the Alaska Housing Finance Corporation
4 may use up to 1 percent of its total fund equity to achieve the purposes of
5 this section.

6 (f) In this section, "residence" includes mobile homes.

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

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

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 432(L&C)
PUBLISH DATE: HOUSE 3/4/88

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act authorizing AhFC to
accept trades in certain cases."
Sponsor: Labor and Commerce
Requestor: House Labor & Commerce

Agency Affected: RevenueBkU: AhFC

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING								
PERSONAL SERVICES	-	-	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-	-	-
OTHER	15,210	-	-	-	-	-	-	-
TOTAL	15,210	-	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

It is unclear at this time what the total volume of the program would be under this bill. The maximum amount would be 1% of \$1.521 billion or \$15,210,000.

Prepared By: Ron Lehr, Executive Director
Division: Alaska Housing Finance Corporation

Phone: 276-5595Date: 03/03/88

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: 03/03/88

Distribution (by preparer):

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

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5-2052X
Chenoweth

3/23/88
* 3/29/88

* By the Rules Committee at
the request of
BY THE JOINT COMMITTEE ON ECONOMIC
RECOVERY (For the Subcommittee on
Housing and Banking)

1 IN THE HOUSE

2 HOUSE BILL NO. 550

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 Department of Community and
7 Regional Affairs to modify the terms of its mortgage
8 loans; and providing for an effective date."

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

10 * Section 1. FINDINGS. The legislature finds that

11 (1) some residents of the state who have obtained mortgage loans
12 from the Department of Community and Regional Affairs have mortgages with
13 payment obligations that exceed their present ability to make the required
14 payments;

15 (2) the Department of Community and Regional Affairs does not
16 have statutory authority to reduce interest rates;

17 (3) the costs of foreclosure and resale, including legal ex-
18 penses, publication costs, maintenance costs, repair and renovation costs,
19 sales expenses, closing costs, and costs due to sale in a distressed mar-
20 ket, may be very substantial;

21 (4) it may be in the department's and state's best direct finan-
22 cial interest to avoid foreclosure by modifying loan terms including
23 rescheduling principal payments, reducing interest rates and payment
24 amounts, and adjusting maturity dates to induce existing owners to remain
25 in title to the property and maintain active management of the property.

26 * Sec. 2. AS 44.47 is amended by adding a new section to read:

27 Sec. 44.47.525. MODIFICATION OF LOANS. (a) Notwithstanding
28 AS 44.47.410(a) and (b) and 44.47.520(b), on mortgages that it has
29 financed under AS 44.47.360 - 44.47.560 the department may, by loan

1 modification, reschedule principal payments or reduce interest rates,
2 or both, if the department finds that

3 (1) a loan modification would result in the likelihood that
4 the loan would pay to maturity and induce the borrower to remain in
5 active management and ownership of the property; and

6 (2) the loan modification would be

7 (A) in the best financial interest of the department
8 and the state; and

9 (B) considered prudent by private lending standards
10 taking into account the financial circumstances of the borrower
11 and other costly alternatives such as foreclosure.

12 (b) Rescheduling of the borrower's repayment of principal under
13 (a) of this section provides an interim payment adjustment and is not
14 intended to affect the obligation of the borrower to repay the princi-
15 pal amount on the mortgage loan.

16 (c) The department may reduce the interest rate payable on a
17 mortgage under (a) of this section only if the modification contains
18 an interest rate reopener clause. The interest rate reopener clause
19 must

20 (1) require that, if the interest rate is reduced, the
21 borrower and the department shall renegotiate the rate of interest on
22 the mortgage within five years of the date of an interest rate reduc-
23 tion approved by the department under this section;

24 (2) specify the date by which the borrower and the depart-
25 ment are to renegotiate the rate of interest under (1) of this sub-
26 section;

27 (3) incorporate a call feature reserving to the department
28 the right to demand repayment of the entire principal amount due if
29 the borrower and the department are unable to conclude renegotiation

1 of the rate of interest under (1) of this subsection; the department
2 may not use the call feature incorporated under this paragraph to
3 demand repayment of the entire principal amount due before the date
4 determined under (2) of this subsection.

5 (d) An interest rate reduction approved by the department under
6 this section cancels the borrower's obligation to pay the amount due
7 that is attributable to the difference between the original interest
8 rate and the interest rate reduction for the period of the rate re-
9 duction.

10 (e) When an interest rate is renegotiated under (c) of this
11 section, the renegotiated rate may not exceed the interest rate orig-
12 inally charged on the loan.

13 (f) The department shall adopt regulations prescribing the terms
14 and conditions of and the procedures applicable to loan modifications
15 made under this section.

16 * Sec. 3. This Act takes effect July 1, 1988.
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H L+C
JUD

5-2066A
Bradley
3/14/88
* 3/29/88

* By the Rules Committee at
the request of
BY THE JOINT COMMITTEE ON ECONOMIC
RECOVERY (For the Subcommittee on
Housing and Banking)

1 IN THE HOUSE

2 HOUSE BILL NO. 549

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 notice requirements on the use of
7 a deed of trust; and providing for an effective
8 date."

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

10 * Section 1. AS 34.20 is amended by adding a new section to read:

11 Sec. 34.20.132. NOTICE OF OTHER REMEDIES. When a lender uses a
12 note as evidence of an obligation secured by a deed of trust, the note
13 must affirmatively advise the trustor and any other party bound by the
14 note, in writing within the note, of the security, recourse, and other
15 remedies, if any, available to the beneficiary. If it is intended to
16 permit the beneficiary to bring suit to collect an amount owing on the
17 obligation without foreclosing the deed of trust, this intent must be
18 stated in writing in the note. A beneficiary may not use a remedy not
19 specifically and clearly stated on a note executed after the effective
20 date of this Act. If a note executed after the effective date of this
21 Act fails to contain the notice required by this section, the debt
22 secured by the deed of trust may be foreclosed only under AS 34.20.-
23 070 - 34.20.135, a deficiency judgment may not be entered, and no
24 other action may be taken nor judgment entered against the trustor,
25 surety, or guarantor on the obligation secured by the note.

26 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).
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STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

Steve
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.

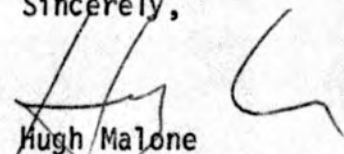
If the state intervenes, we will bias normal investment decisions, and make private dollars less productive than they otherwise would be. Economic recovery will be slowed, and the uncertainty and hardship will be prolonged. (Of course, if we could return spending to the per capita level of a few years 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

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)¹. To place these numbers into perspective consider that this \$115 million to \$165 million represents two to three times the FY88 authorization to the Municipal Assistance program². 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. Fineberg and Joan Kasso, Table 1, Jan. 28, 1988.

2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

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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.

Curtailement 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

Comment Draft 2/18/88

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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

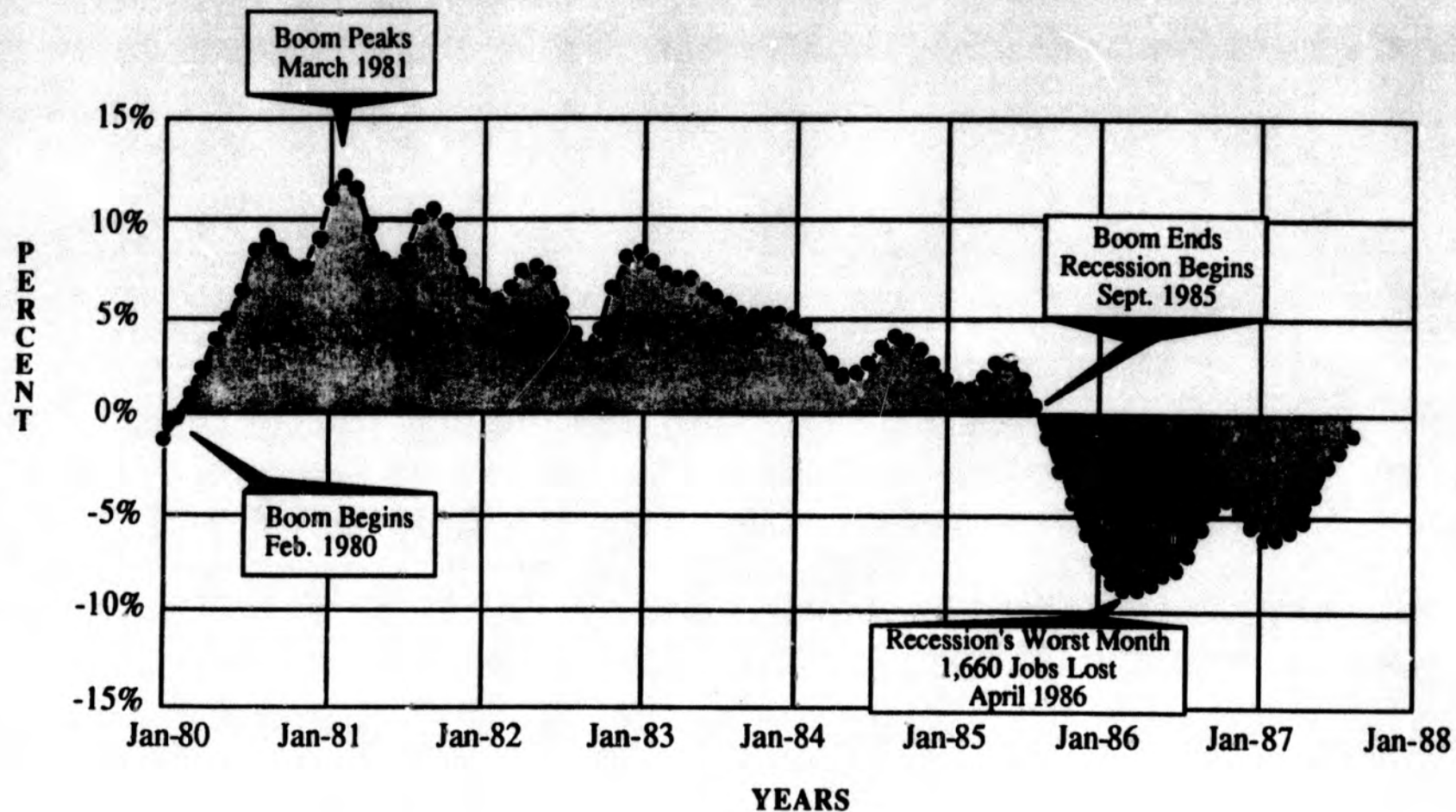
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. *When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.* Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith, 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.¹ 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

¹ 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

Office of the Governor
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.²

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

² 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.³

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.⁴

³ The average U.S. state spends about \$1,700 per capita. All figures are unrestricted general funds expressed in constant 1987 dollars.

⁴ 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.⁵ 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.⁶

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 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

⁵ The figures do not include renters living on military bases.

⁶ 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.⁷ 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

⁷ 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 shaky 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's 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.

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

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 Govt. Comm.*

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,

Signature

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.).

February 11, 1988

Dear Senators Arliss [REDACTED] Jan FAIKS, Richard HALFORD,
 & d 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, the State of Alaska shall impose a market stabilization tax. The tax shall be levied on the sale or liquidation of real estate properties, including the sale of real estate at a price less than 80% of the fair market value, or the balance on that property or portfolio of real estate properties of the State of Alaska to ensure a tax on the sale of real estate property or portfolio of real estate properties equal to 80% of the outstanding mortgage balance on that real estate property. The tax shall be equal to 80% of the outstanding mortgage balance on that real estate property, less the sales price of the real estate property.

$(\text{Outstanding Loan Balance} \times 80\%) - \text{Sales Price} = \text{Tax}$

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



**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**

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, 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.

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December 1, 1987

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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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December 1, 1987

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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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December 1, 1987

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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

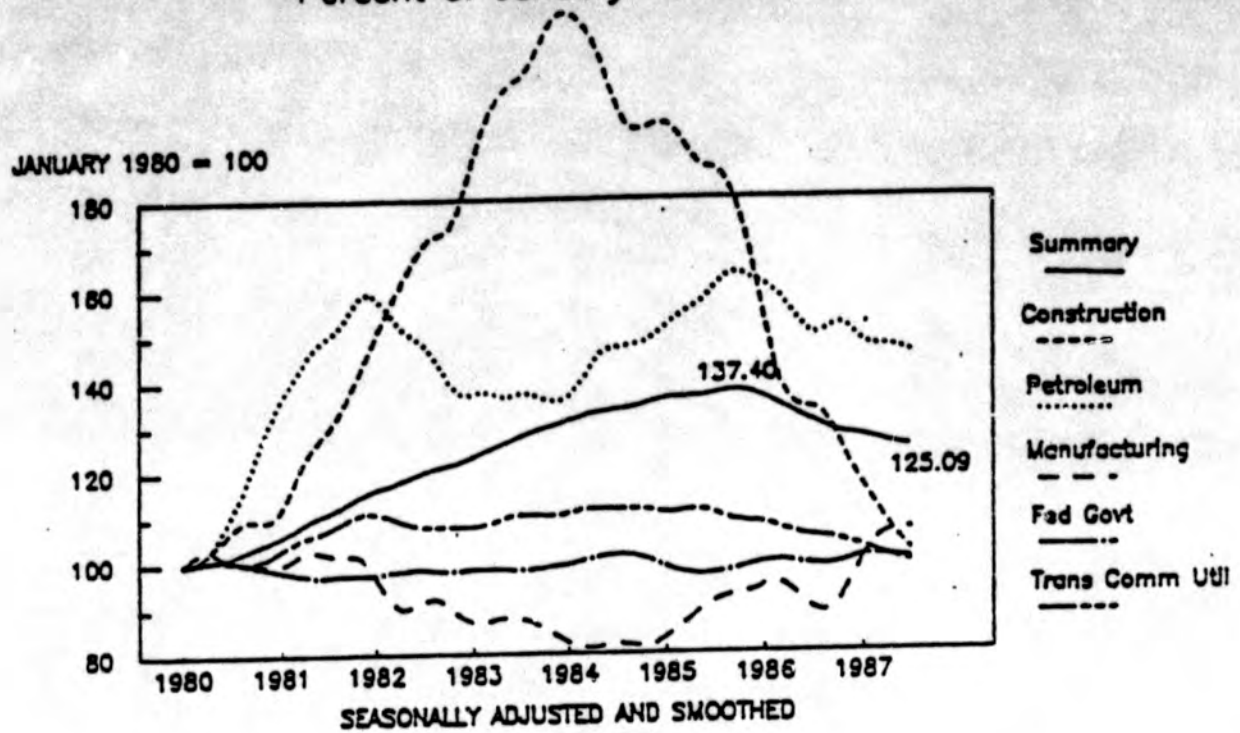


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

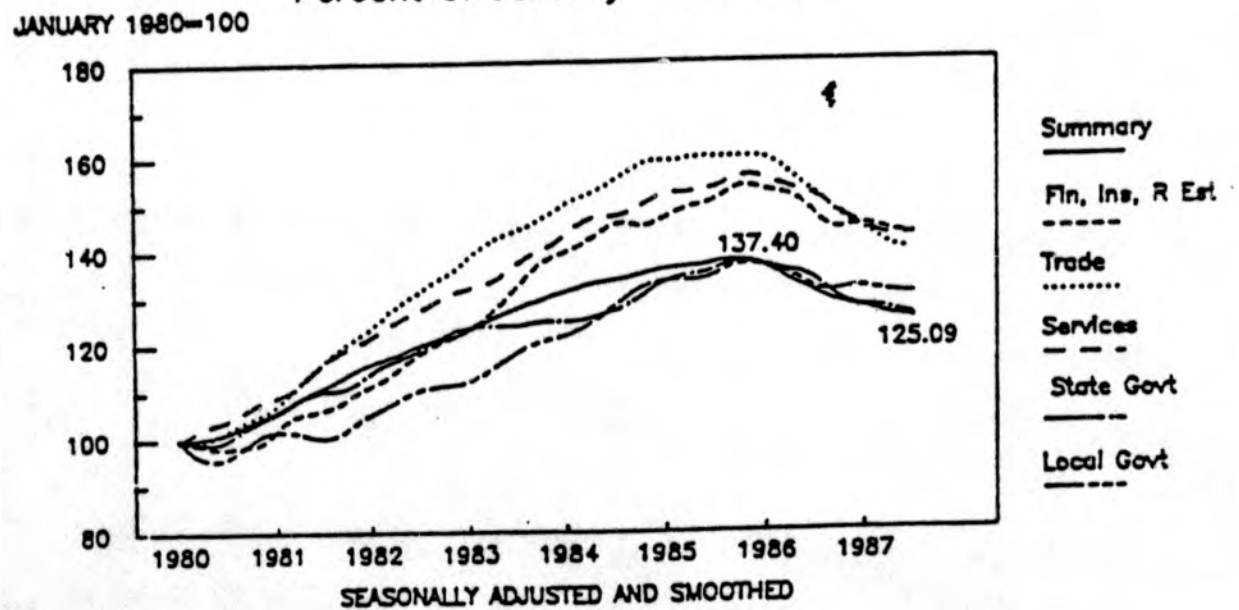


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	Job Peak Sept. 1985	Employment			
		June 1987	Loss from Peak	June 1988	Estimated Further Loss
Total Wage and Salary	230	209	21	202	7
Mining	9.8	8.8	1	9	-
Manufacturing ^a	-	14.8	-	14	1
Federal Civilian ^a	-	18	-	18	
Transportation, Communications, Public Utilities	19	17	2	17	
Construction ^b	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

^aNo significant loss from peak to date. These industries are experiencing a cyclical peak.

^bPeak month--January 1984.

Figure 2.6

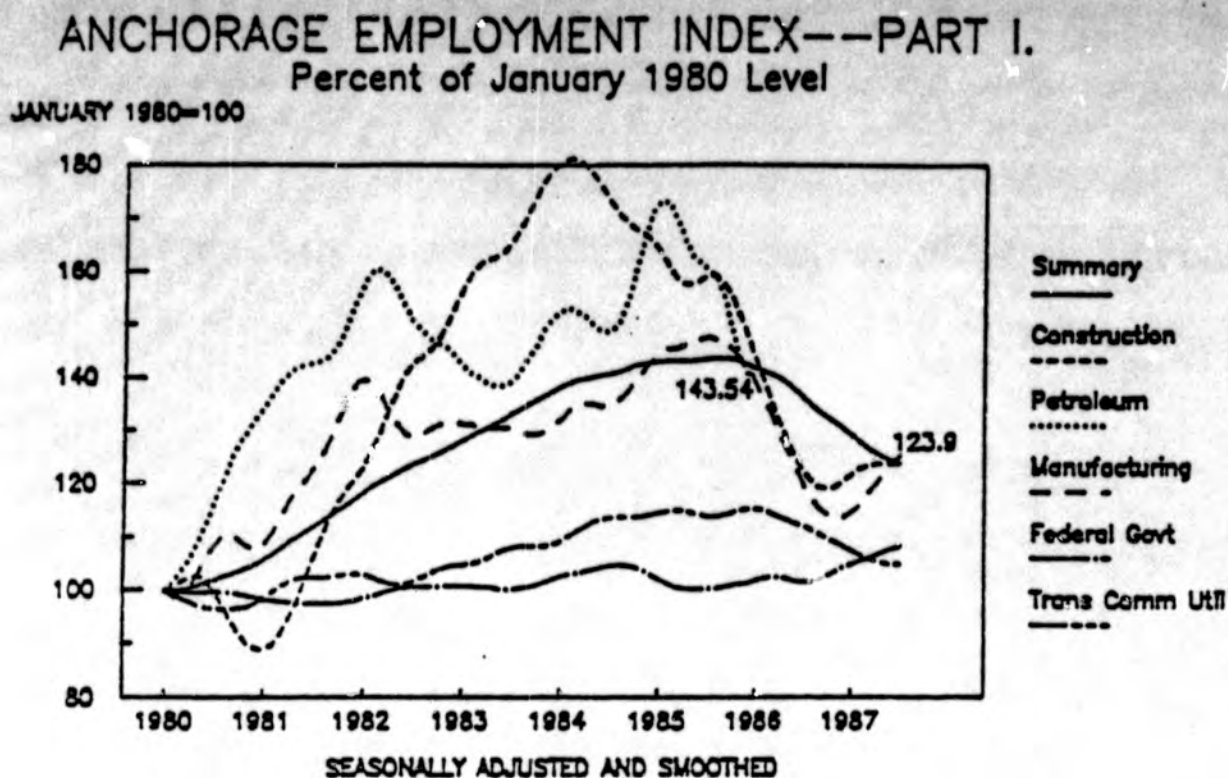


Figure 2.6

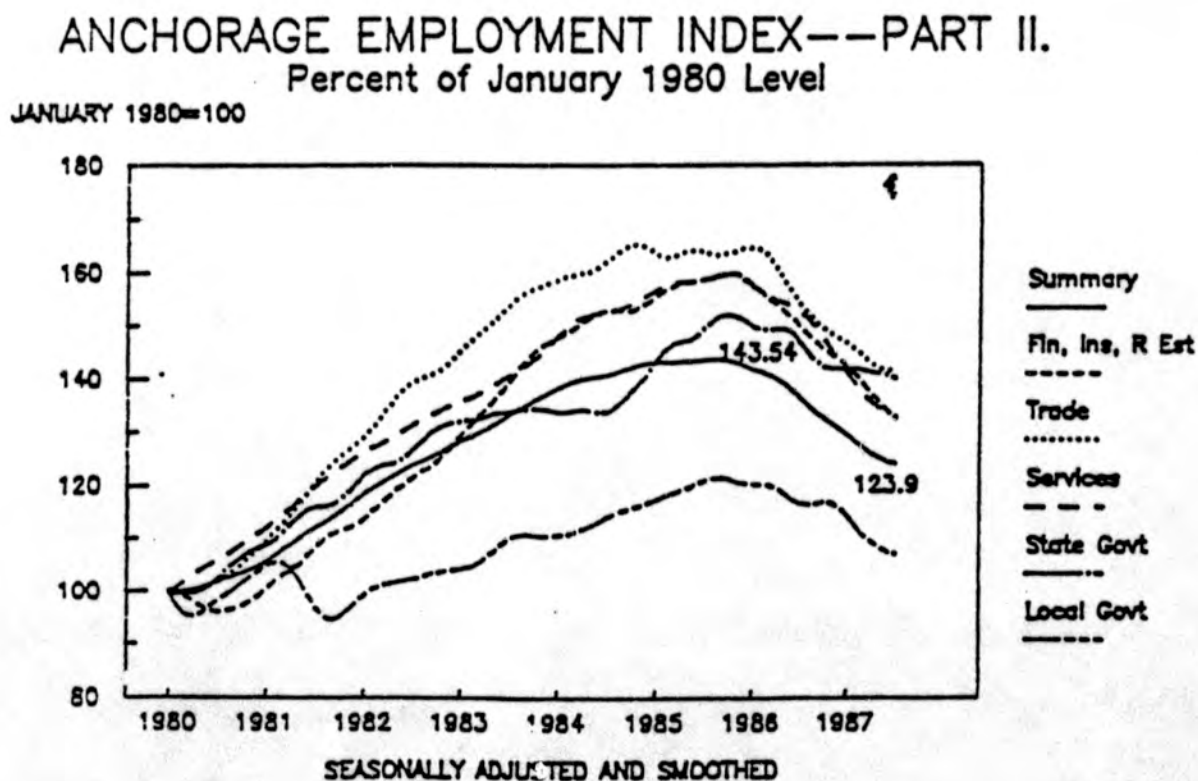


Figure 2.11

ALASKA BASIC INDUSTRY EMPLOYMENT (AHFC STUDY)

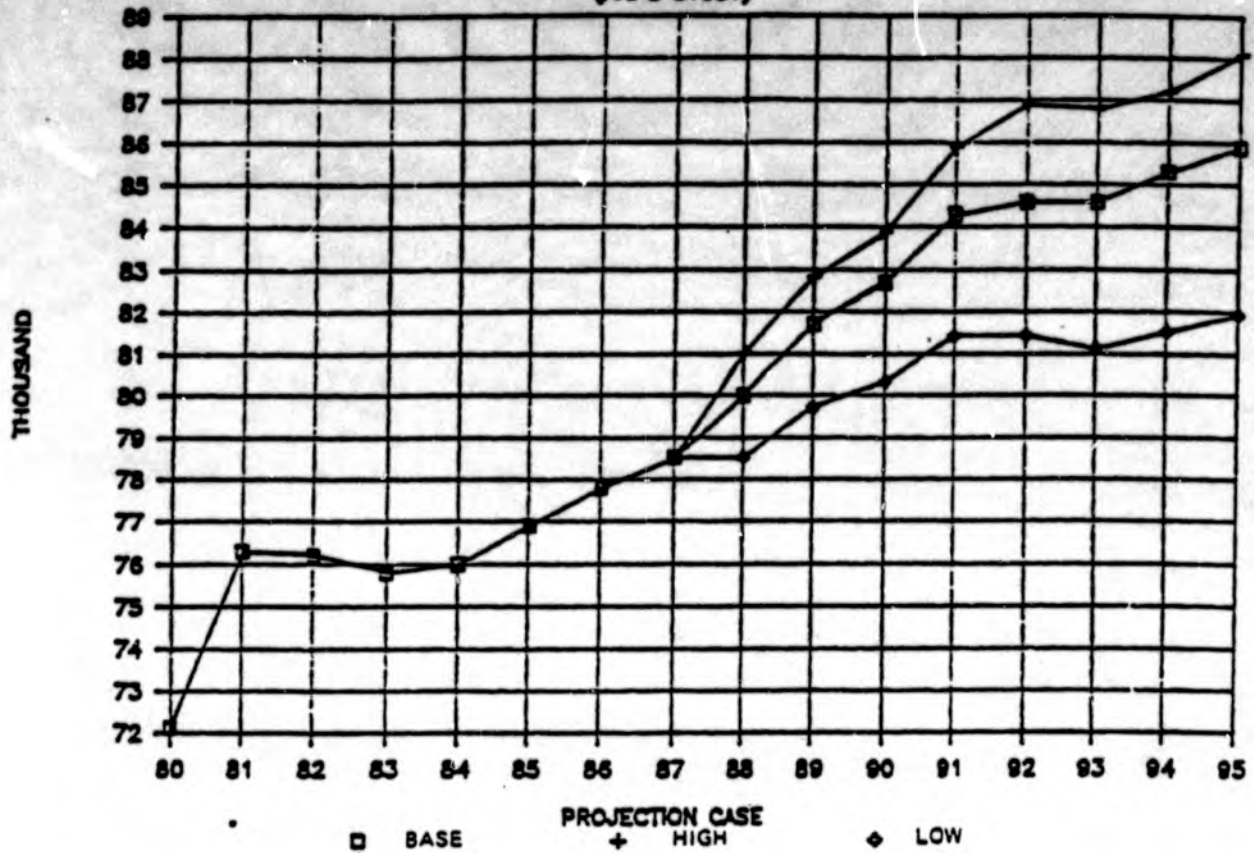


Figure 2.12

STATE-LOCAL GOVERNMENT EMPLOYMENT (AHFC STUDY)

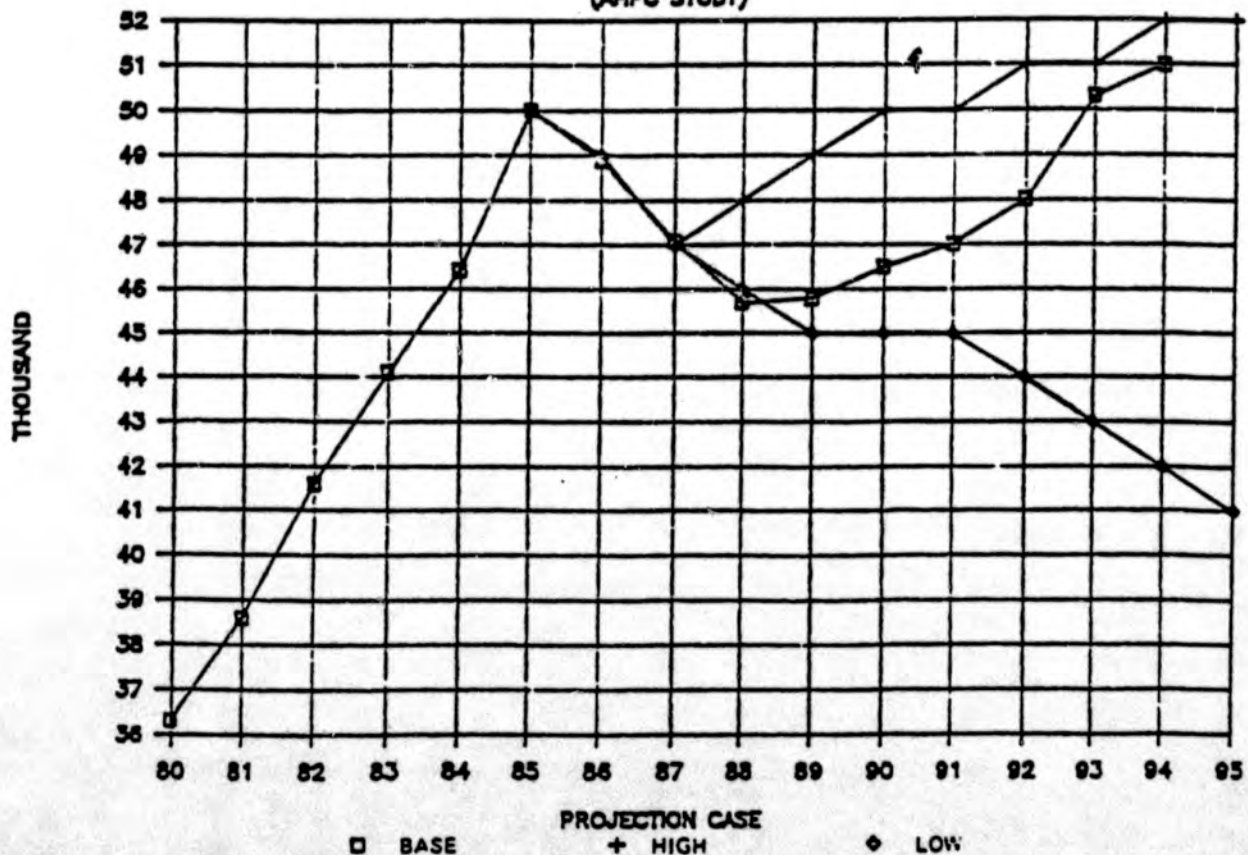


Figure 2.15

ALASKA INFRASTRUCTURE EMPLOYMENT (AHFC STUDY)

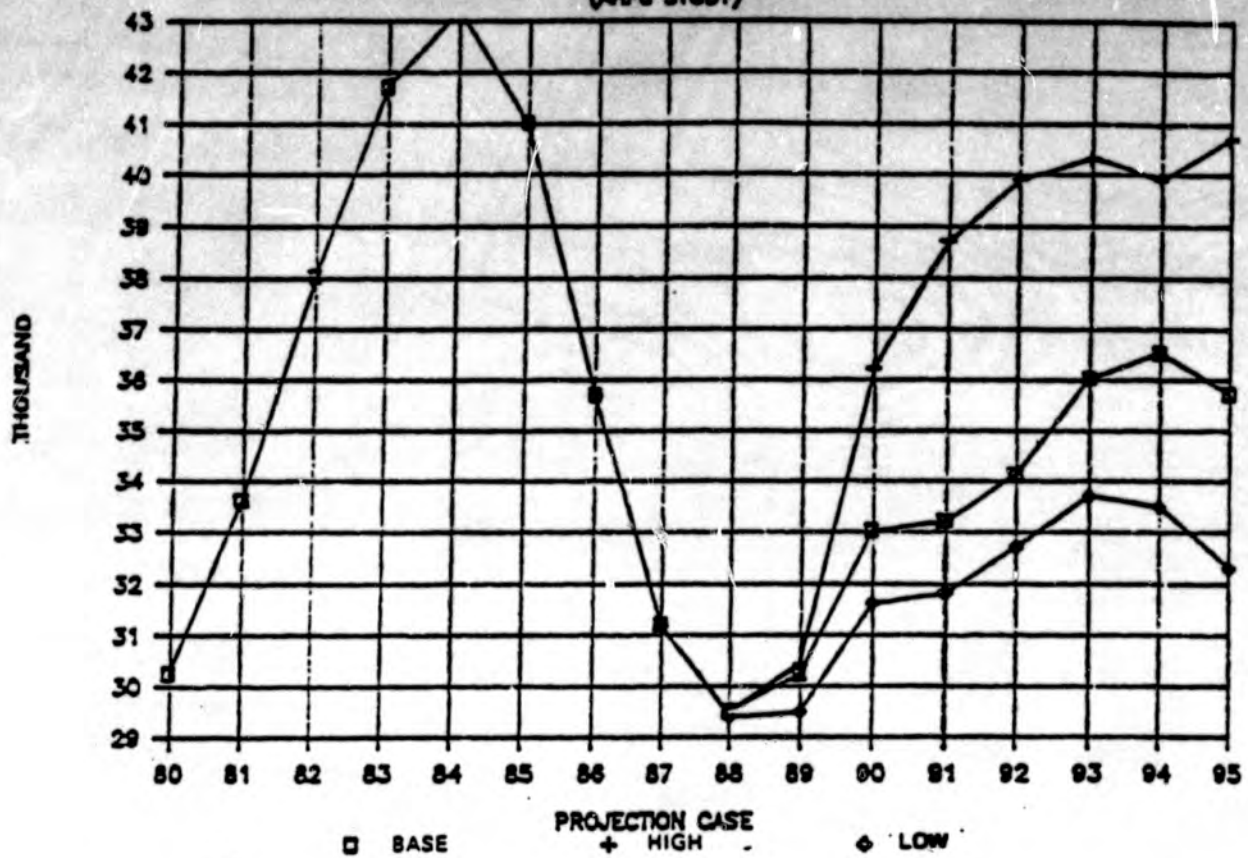


Figure 2.16

ALASKA SUPPORT INDUSTRY EMPLOYMENT (AHFC STUDY)

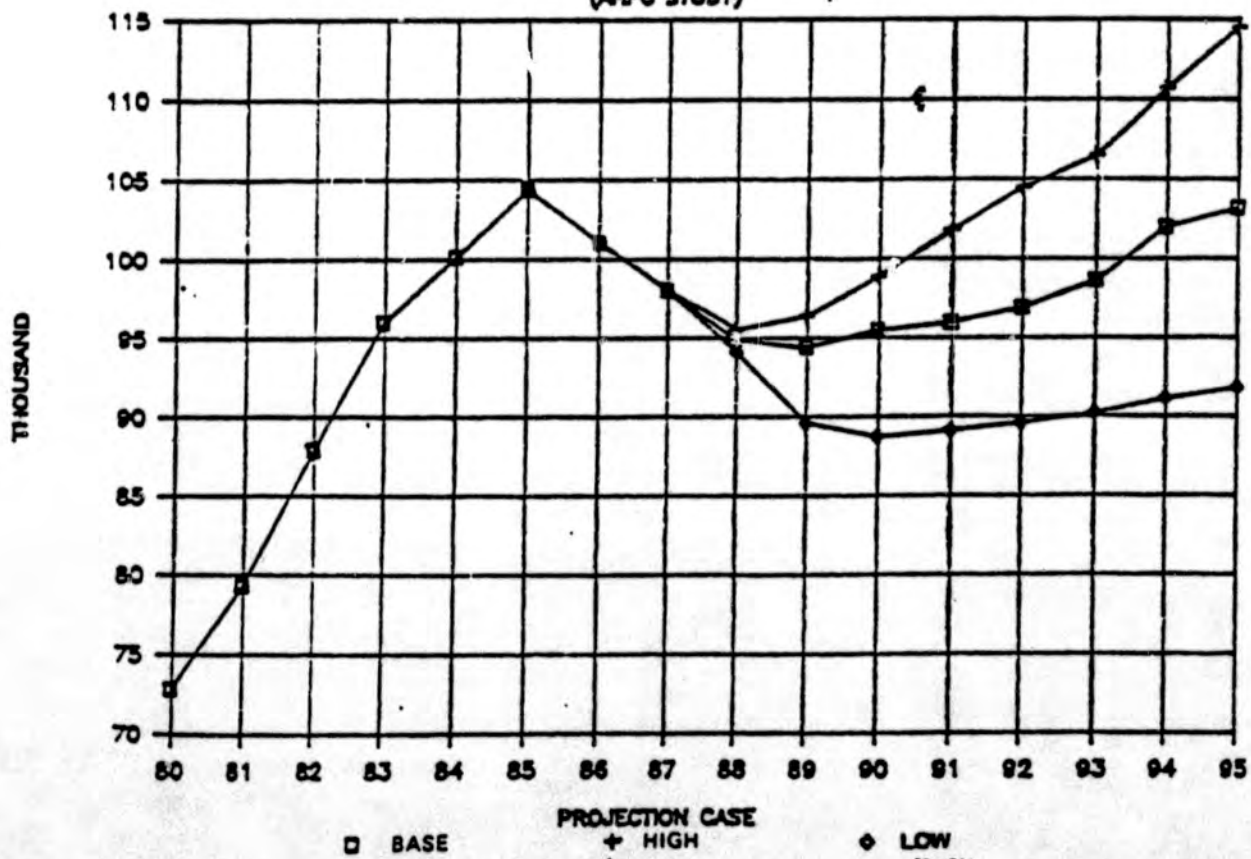


Figure 2.17

ALASKA WAGE AND SALARY EMPLOYMENT (AHFC STUDY)

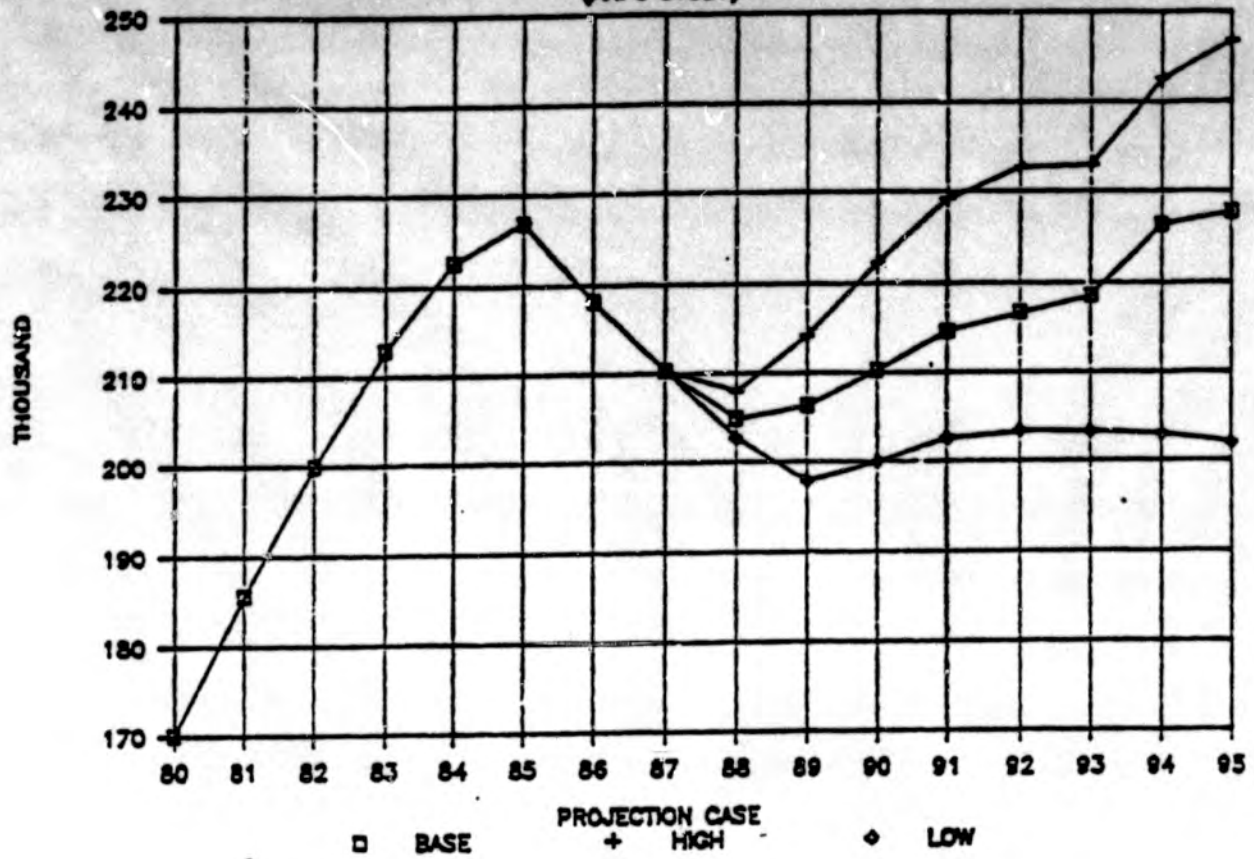


Figure 2.18

ALASKA REAL PERSONAL INCOME (AHFC STUDY)

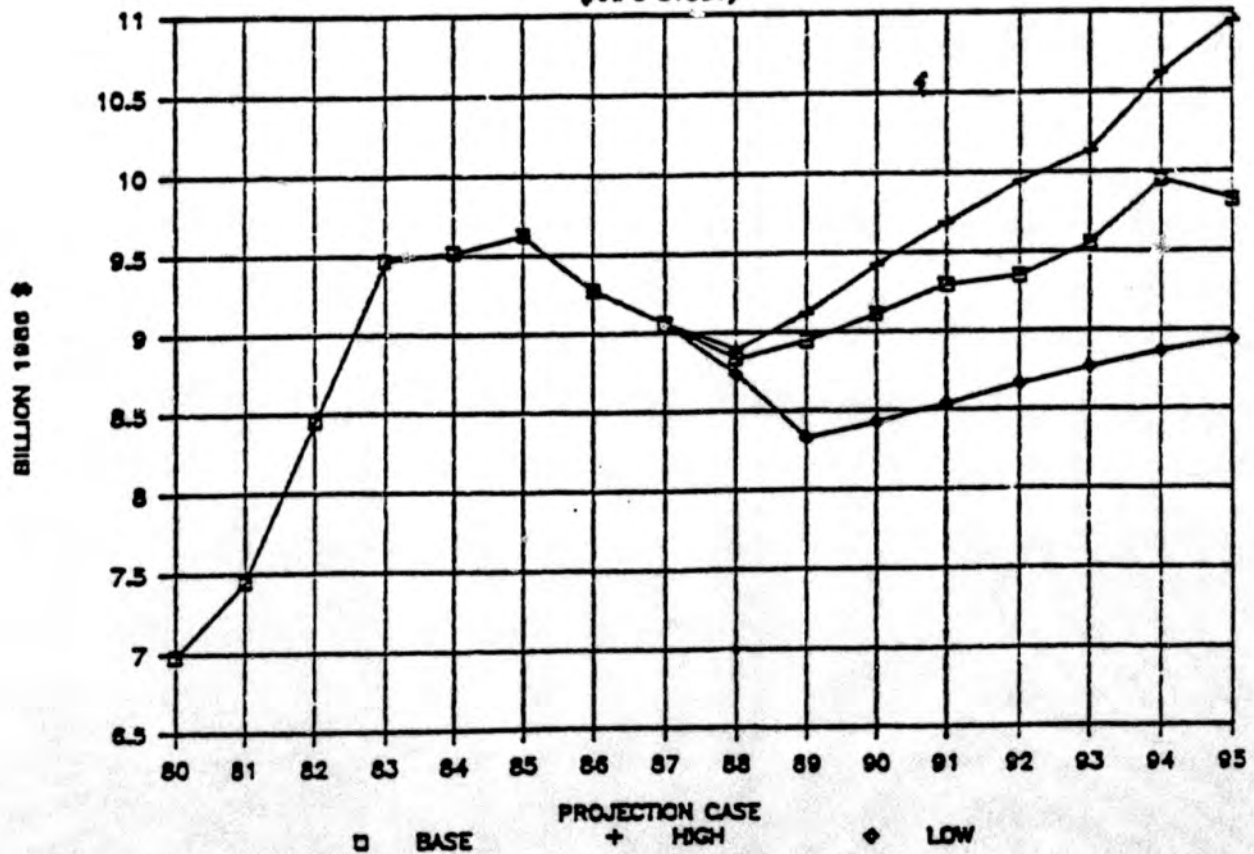


Figure 2.19

REAL PER CAPITA DISPOSABLE INCOME (AHFC STUDY)

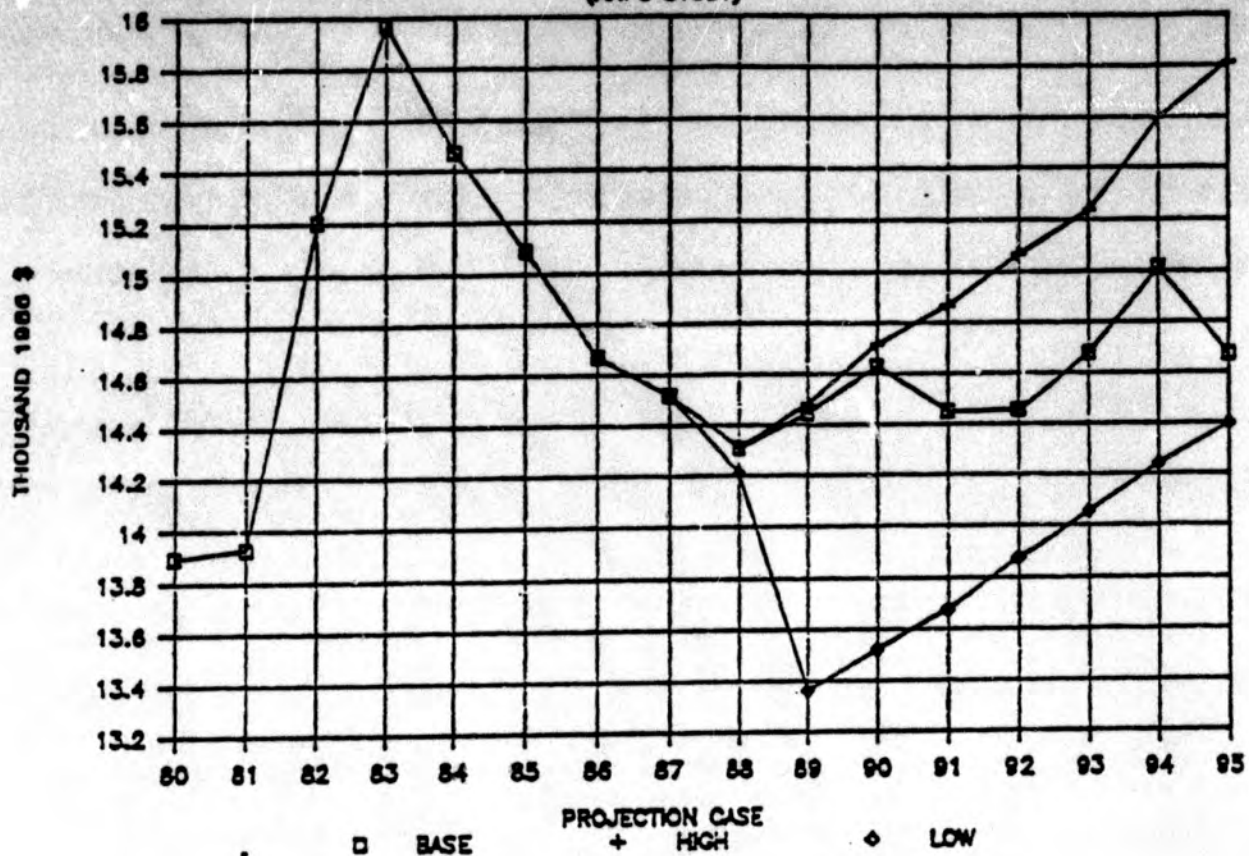


Figure 2.20
ALASKA POPULATION
(AHFC STUDY)

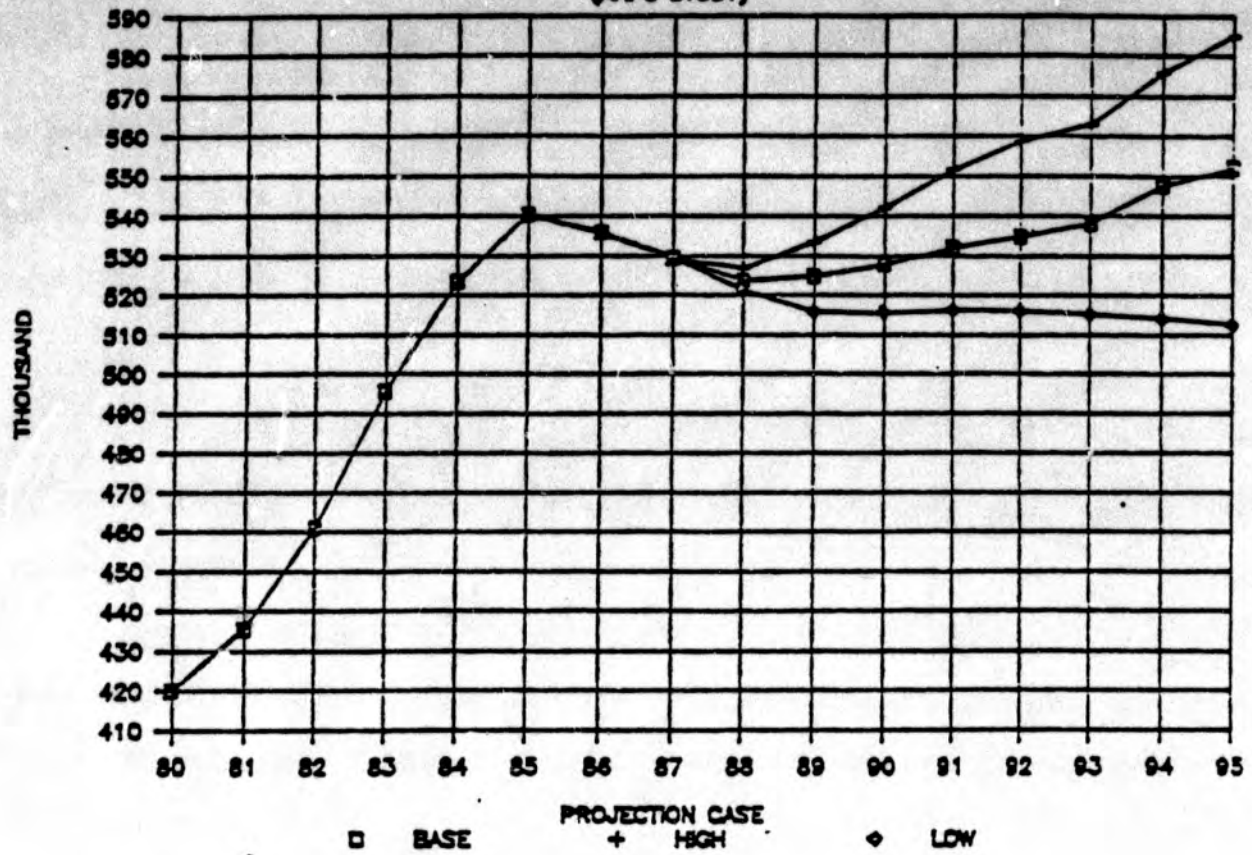


Figure 2.21
ALASKA HOUSEHOLDS
(AHFC STUDY)

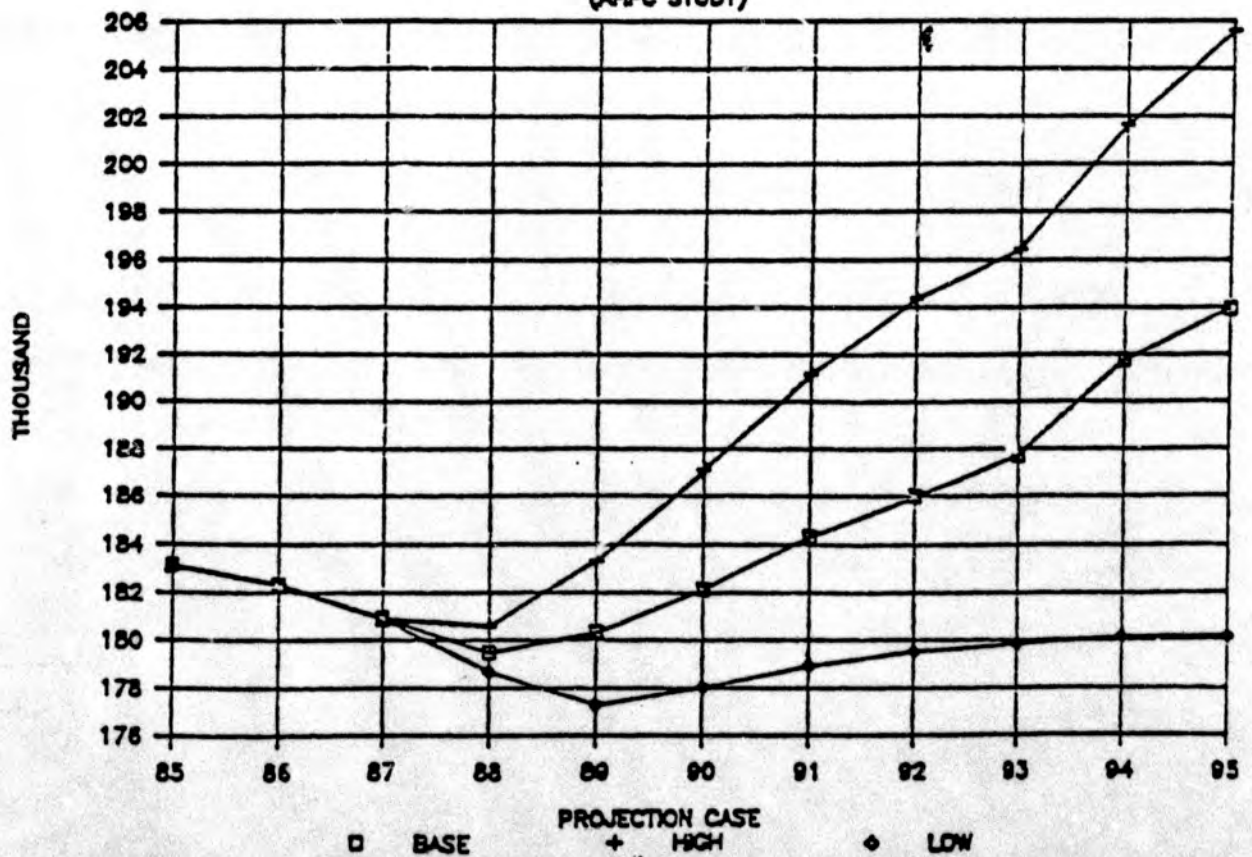


Figure 2.13

PETROLEUM REVENUES: GENERAL FUND (AHFC STUDY)

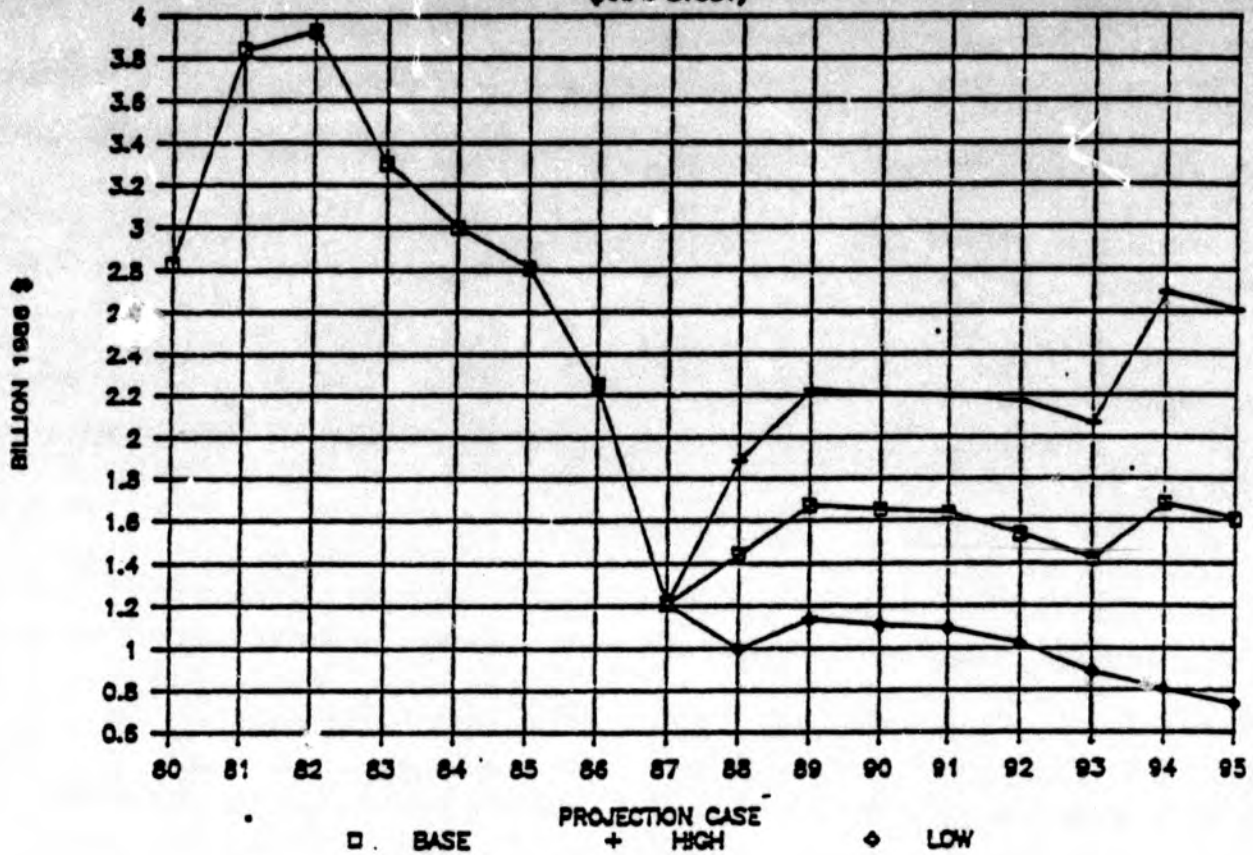


Figure 2.14

STATE EXPENDITURES : GENERAL FUND (AHFC STUDY)

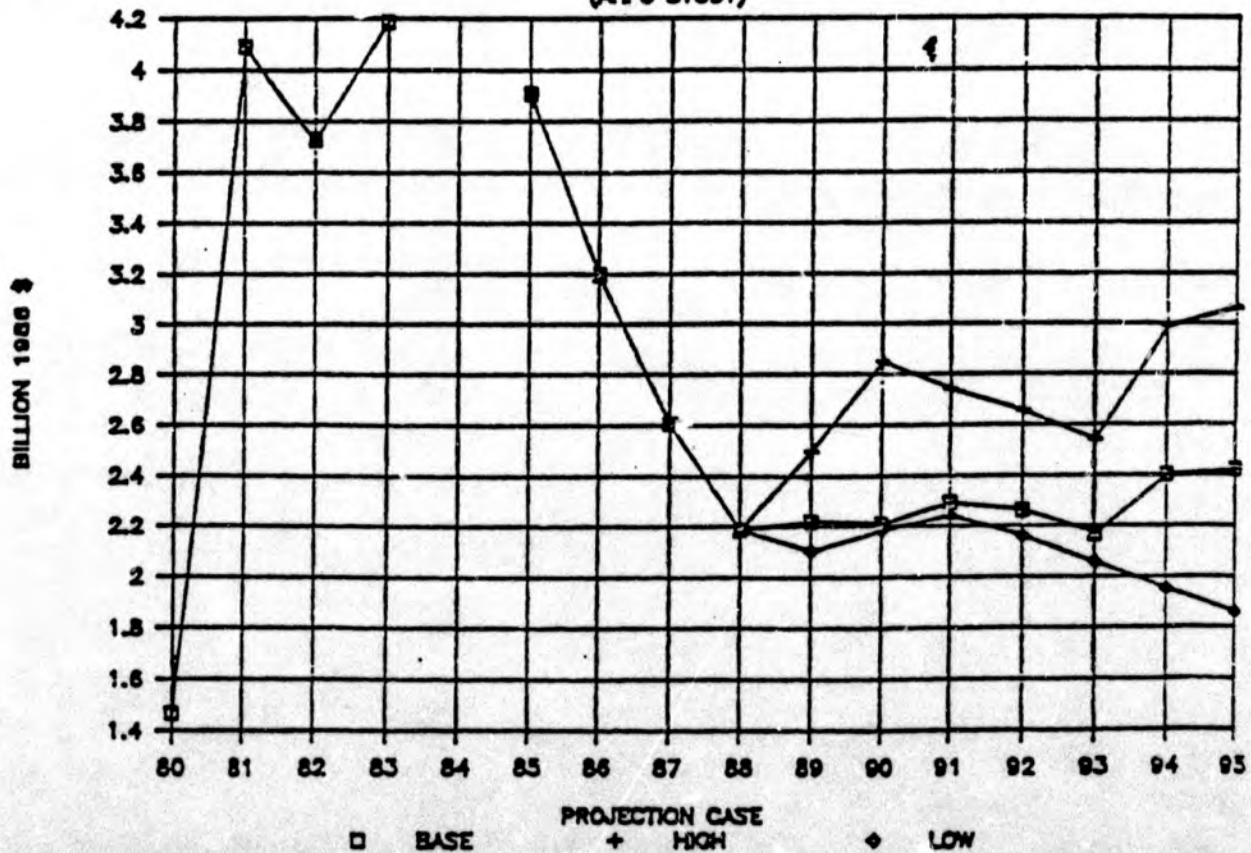


Figure 2.26

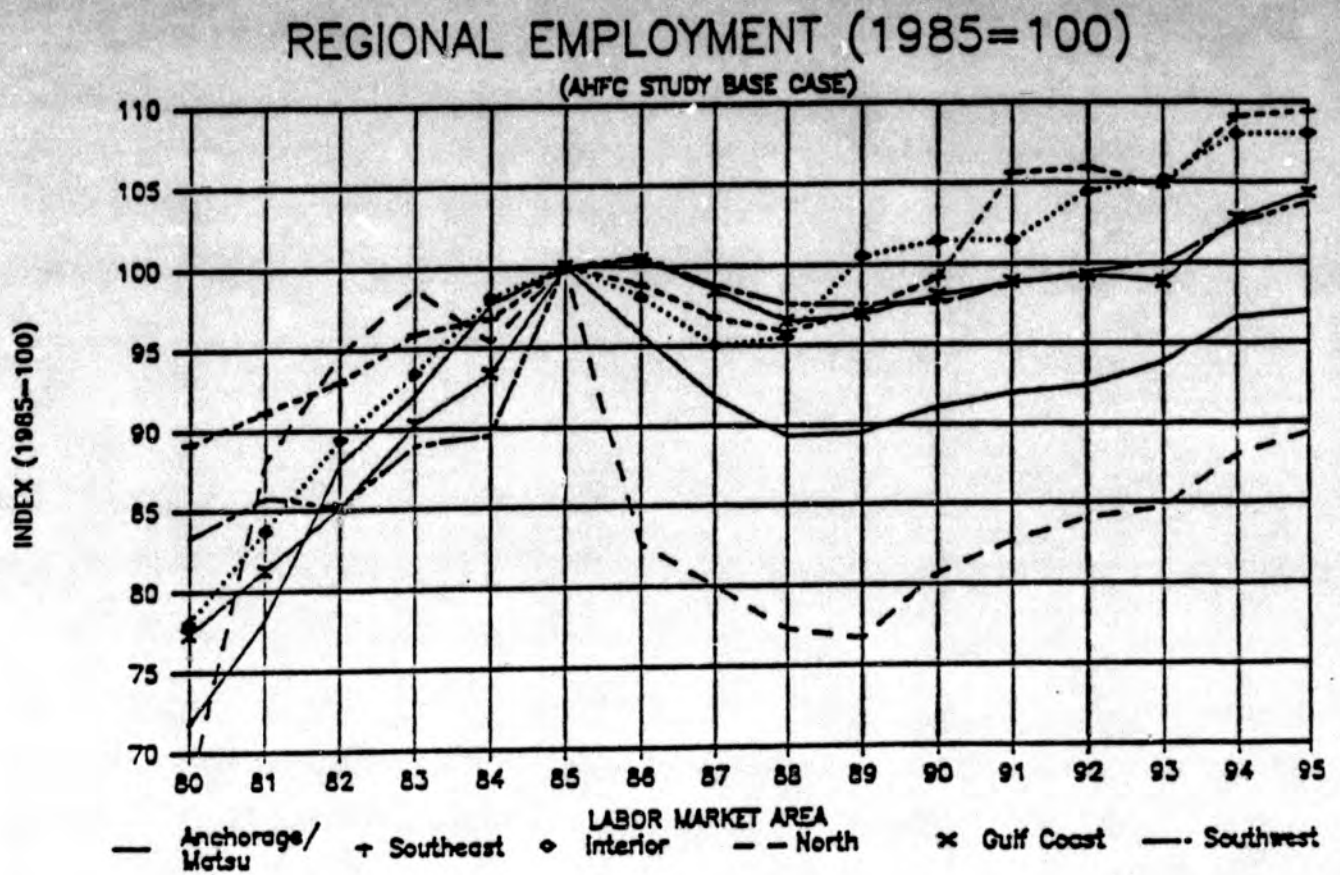


Figure 2.27

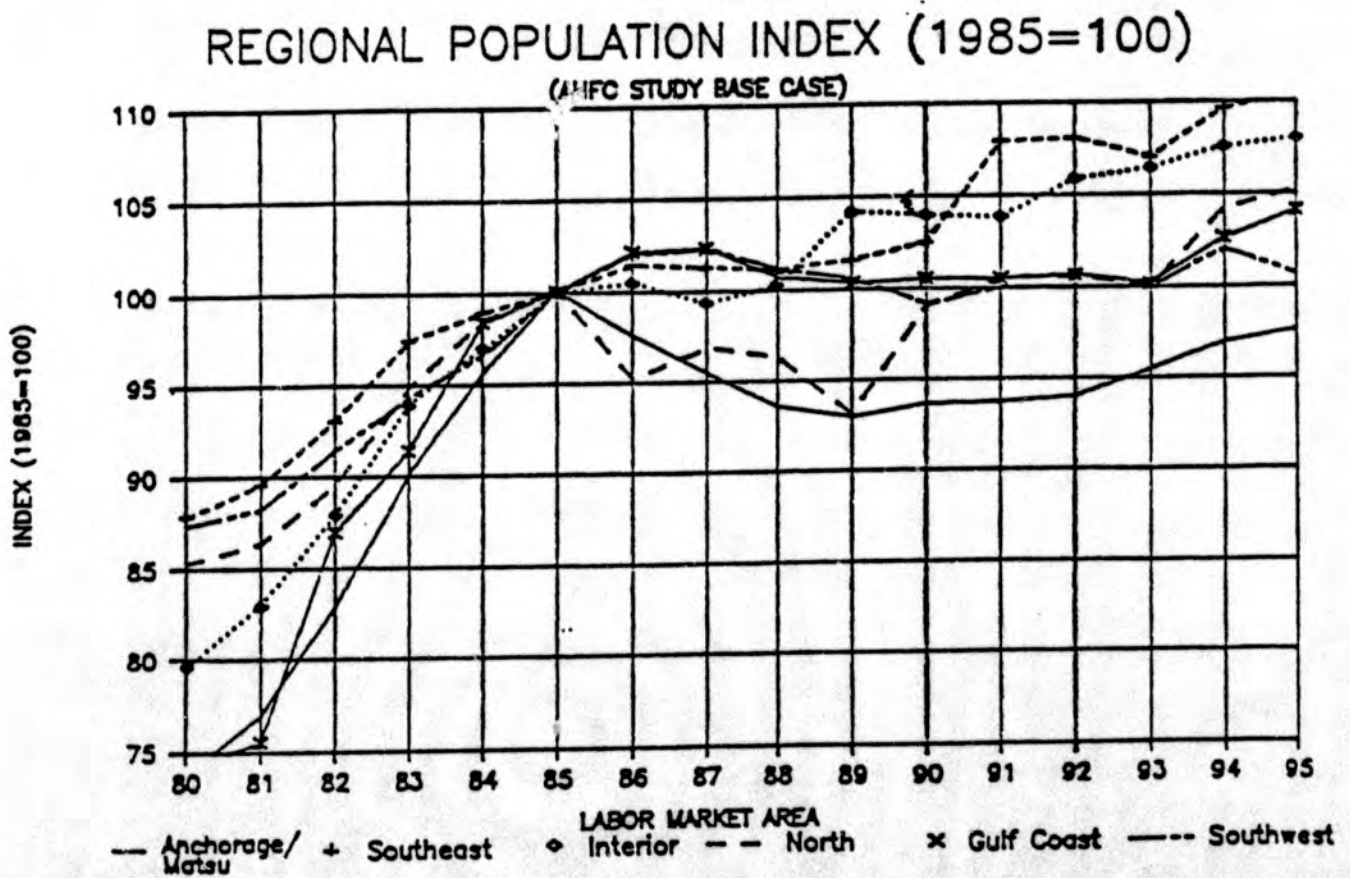


Figure 2.28
ANCHORAGE/MATSU POPULATION
(AFC STUDY)

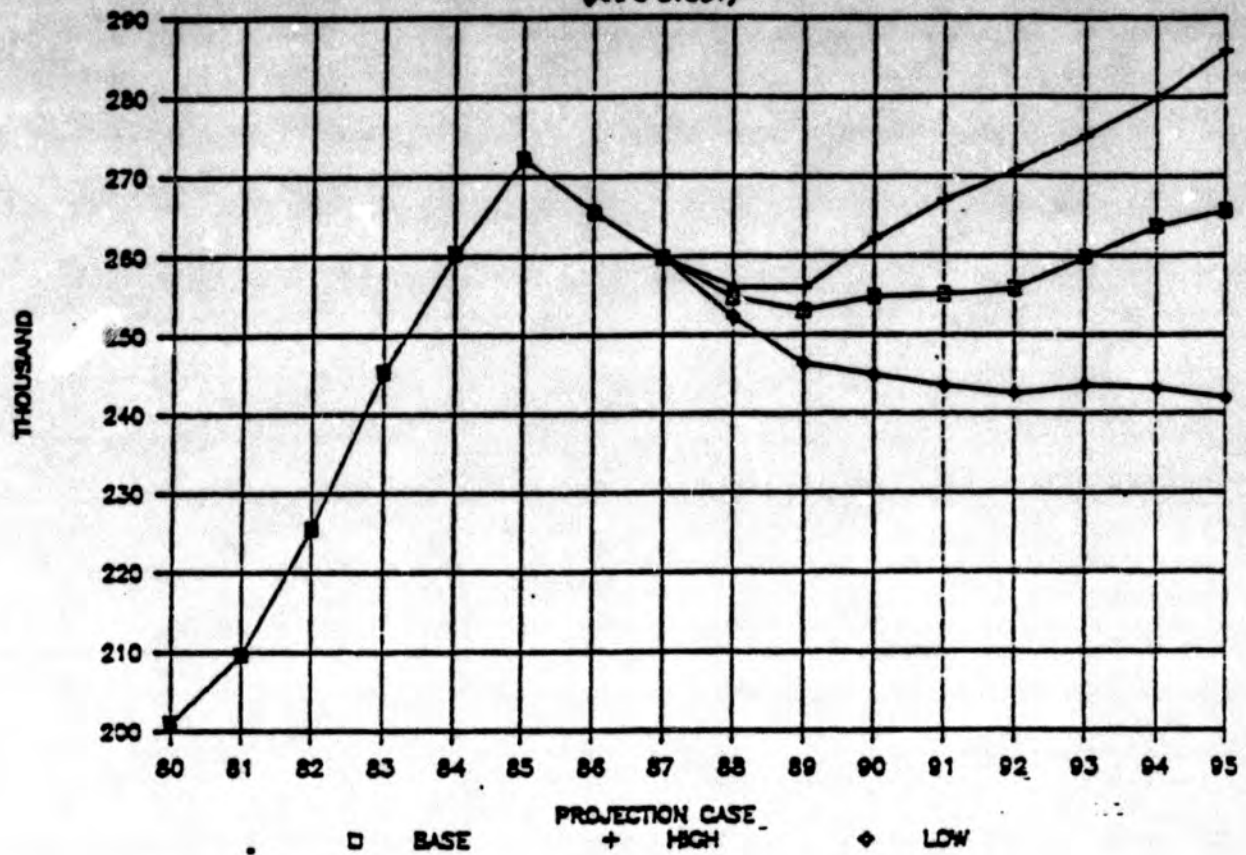
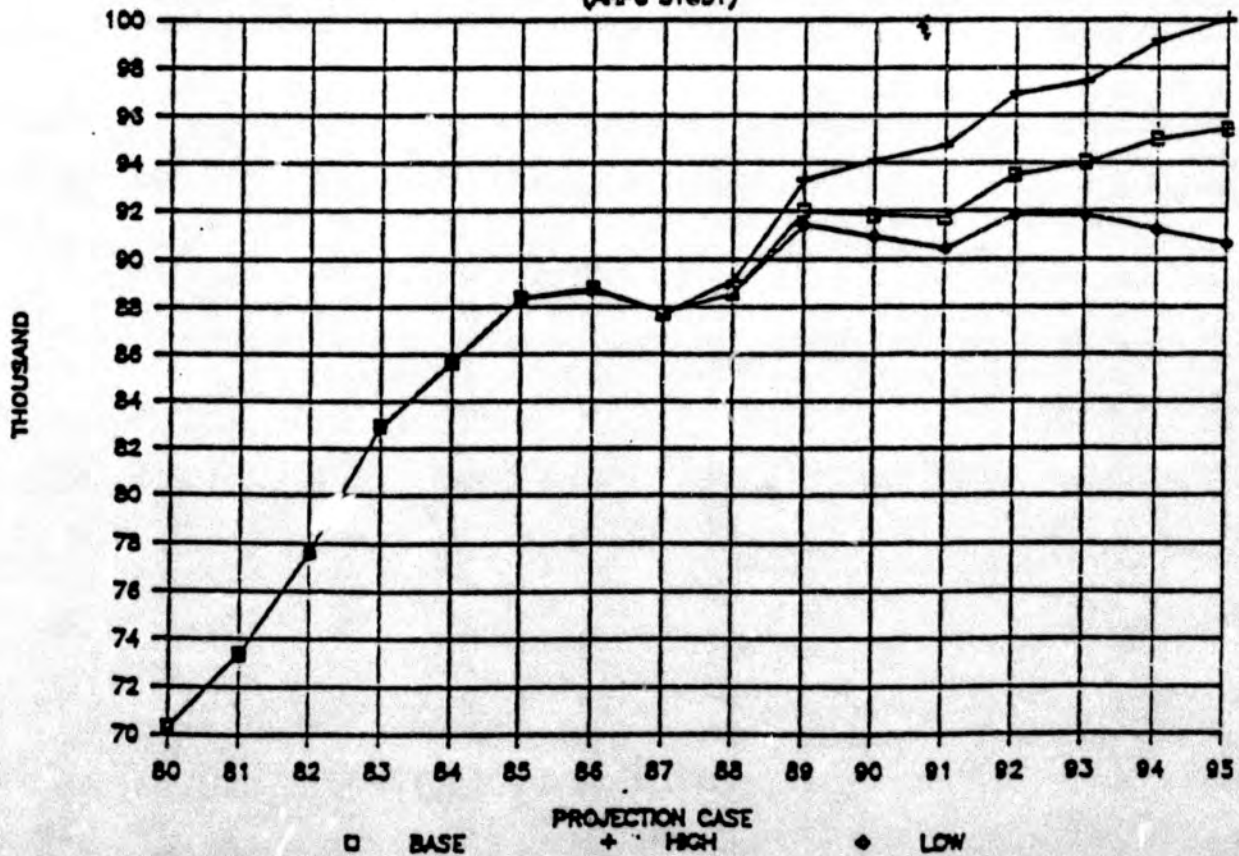


Figure 2.29
INTERIOR POPULATION (GREATER FAIRBANKS)
(AFC STUDY)



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
OPEC Price | \$19 nominal world oil price in late 1980s. The real price rises slightly faster than inflation in 1990s. |
| 2. Petroleum Production--
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]. |

(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 [RPEN]. |
| 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 [RLTMCAP].
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 (GCH.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.

Agency set up to sell assets seeks bailout

Washington Post

Washington — 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

man / Seattle Times

happy

blems. The equip-
al inside drain and
tedious. The recent
antly increased the
ing common water

I should be getting on with it. Said: "If you clear a line, a great deal of the there. light bulbs. You create

has been to make sure domestic problems don't impale, the water from in through my yard. I ne, so I am careful not body else.

the roots from one of

ster service compan-
al rates and addition-

241-6070, \$49 for
each additional
minutes.

8-5300, \$49.50 first
100 feet in length
each additional 15

7, \$63 per hour for
additional labor hour pro

2, \$58.50 per hour for
line, \$8 each

8159, \$47 per hour
hour for inside line, \$47
15-minute period for

1605, \$37.50 per
additional half-hour.

282-4700, \$40 per
hour for 4-inch
pro rated based on

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
minutes.

neighbor's yard and fouled
Who would be liable? I
follows negligence, but
liable for not tracing the
is?

rance agent for University
d that if roots caused a
would take care of the
after the cause, but not

and secure

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 subcommittee on commerce, consumer protection and competitiveness, 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 to the past year compared with, six months ago, last month and today. Rates can change daily and loan programs vary.



**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.

RECEIVED

JUN 8 1988

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.).

MEMORANDUM

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

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.

Mr. Jim Lottsfeldt

March 7, 1988

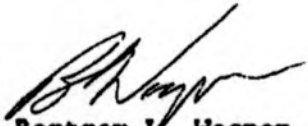
Page Two

The proposal seems a trifle bizarre in that there has been much discussion on "FDIC Dumping" yet here we are dumping first to the Authority for .25¢ on the dollar, then the banks have the option of dumping to someone else. While hopefully not sounding too negative, this appears to be an exercise in activity that most likely accomplishes nothing. The end result is the banks would sell the property most likely to the same people, firms and groups, etc. that the FDIC will.

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

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

Respectfully,



Bertram L. Wagnon
Executive Director

BLW/ss



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

WOHLFORTH, FLINT & GRUENING

Pod

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 ^{near} ~~now~~ 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 takes place the \$250,000 will be repaid from bond proceeds. If it does not it becomes a grant.



ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

**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.

550 West 7th Avenue
Suite 850
Anchorage, AK 99501

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.001

Summary	Anchorage Birdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Marilla Big Lake Willow Talkeetna		Valdez Glennallen Copter Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL **	
Bank of the North																								
Real Estate/Const	15,758,131	85	1,132,290	8	284,832	5	2,536,787	28			367,492	2	2,523,366	16	3,617,356	9			1,632,293	9	2,052,075	10	29,904,622	172
Other Real Estate	2,249,168	12	0	0	158,913	3	1,444,578	18			128,160	1	1,577,924	7	287,608	5			21,184	1			5,867,535	47
Commercial	17,616,406	83	1,450,707	14	96,041	3	10,489,694	149			56,917	2	1,705,584	25	706,862	11			2,091,524	18	2,357,472	21	36,571,206	326
Installments	193,188	27	33,128	11	18,518	2	256,889	45	740	1			64,052	8	2,401	1	2,059	1	16,884	4	56,899	15	644,758	115
Subtotal	35,816,892	207	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	4,464,447	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	1,827
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	1,827
	37.36%		2.79%		2.80%		25.17%		0.07%		0.06%		8.88%		2.22%		0.43%		14.62%		5.60%			
RNB 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	6,762,409	60	16,776,233	95	68,921	4	4,498,220	39	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	19,325,939	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 book value.

06-Feb-98
File Name: 0156geostrat.wkl

Summary	Anchorage Birdwood		Nome Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Millow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL #		
First Interstate																									
Real Estate/Const	57,411,882	94	337,368	1	715,128	2			1,290,472	4	861,983	5			8,065,047	18			549,118	1	3,975,404	14	73,226,422	139	
Other Real Estate	17,921,277	60			142,050	4			632,335	7	802,394	4	671,356	1	1,940,908	27		1	1	98,900	1			22,209,221	105
Commercial	33,041,204	131	16,694	1	4,338,519	14	243,871	2	748,671	11	1,452,239	7	220,127	3	2,109,437	21	66,861	2	60,286	2	1,552,932	14	43,850,841	208	
Installments	346,426	12					20,711	1	1,606	2	48,855	6			26,613	3			28,031	3	27,508	4	499,749	31	
Subtotal	108,720,789	297	354,082	2	5,195,697	20	264,581	3	2,673,084	24	3,165,471	22	891,483	4	12,162,006	69	66,862	3	736,335	7	5,555,843	32	139,766,233	483	
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.57%				
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,294	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	154,068,098	703	
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%				



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.

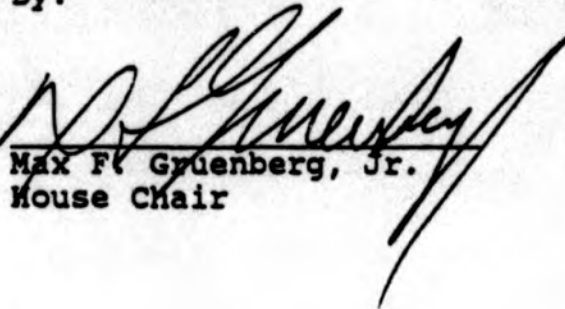
During our preparatory discussions and that hearing we expect to learn the details of the problem and explore all possible solutions. We would like the legislature and the FDIC to work together and find an equitable solution as speedily as possible. Given the time needed to develop, draft and pass the 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,

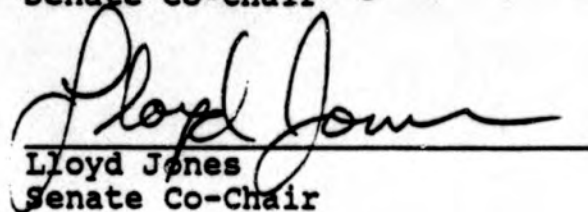
The Joint Committee on Economic Recovery
By:



Max F. Gruenberg, Jr.
House Chair



Arliss Sturgelewski
Senate Co-Chair



Lloyd Jones
Senate Co-Chair

ALASKA

REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

University of Alaska Anchorage, Institute of Social and Economic Research December 1987, Vol. XXIV, No. 2

Alaska's Economy: What's Ahead?

We'll know the Alaska recession is over when we can open a newspaper and see no mention of layoffs or banks on the brink of failure; when we go to a store we haven't been to in six months and find it still in business; when we can drive around and see no notices for garage sales that say: Everything Must Go—Leaving State.

When will the recession let go, and what lies beyond it? We believe that the worst of the recession—as measured by job loss—is now behind us. If oil prices remain stable in the range of \$16 to \$20 a barrel, the recession will likely end in mid-1988. During the recession the economy has lost jobs, population, and income—but by no means will we lose everything we gained during the boom years of the early 1980s. Once the recession ends, the economy should begin growing again—but at a much slower rate than the breakneck pace of several years ago. And unlike in the recent past, when we could always look to some big specific project or event to push the economy, this time we think it will be moderate growth throughout Alaska's basic industries that will lead us out of the doldrums over the next several years.

In this *Review* we describe what caused the recession, assess how much it has cost Alaska, and project economic change through 1995. Our economic projections are based on what we know right now. As we learn more in the coming months we'll be revising our projections. What we say here is our best judgment as of late 1987, and we think it is sound. But as all Alaskans know, the Alaska economy is changeable and forecasting its movements is risky: you never know what surprises might be waiting around the bend.

In the first sections we briefly discuss Alaska's economy in general and describe the causes and dimensions of the economic boom of the early 1980s. Then we turn to an analysis of the recession

and the economic projections.

Methods of Economic Forecasting

We made our projections through the use of a computer simulation model developed by ISER. The projections cover what now looks like the probable range of change through three scenarios—high, medium, and low—that incorporate different assumptions about the future price of oil and other factors that will influence the economy.

The high case assesses what would happen if oil prices suddenly rose to \$26 a barrel (in 1986 dollars) and stayed that high throughout the forecast period. The medium case assumes that oil prices remain stable in their current range of about \$18 a barrel (again, in 1986 dollars) and stay around that level through 1995. The low case is a worst-case scenario that we consider extremely unlikely but which we include to illustrate what would happen if there were a prolonged collapse of oil prices—if the price of oil dropped below \$15 a barrel and stayed that low for several years.¹

We consider the medium case most likely, if oil prices in fact remain stable in their current range. It is

¹ A listing of the other major assumptions in each case appears in Appendix A of *Alaska's Economy and Housing Market*, available from ISER.

This Review is based largely on materials from Alaska's Economy and Housing Market (October 1987), an ISER report prepared for the Alaska Housing Finance Corporation. AHFC commissioned the report to help the corporation in its efforts to stabilize the Alaska housing market, which has been hit hard by the current recession. This publication describes the economic forecasts in the ISER report; an upcoming Review will discuss the report's findings on the housing market.

ALASKA REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

VOL. XXIV, No. 2, December 1987

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Oliver Scott Goldsmith

Alaska's Economy: What's Ahead?

Oliver Scott Goldsmith is professor of economics with ISER.

the medium-case projections that we discuss most in the following pages, and in those figures where only one projection is included, it is the medium case. Other figures include projections under all three cases, to show how the economy would change in response to changes in assumptions.

Another important point to remember about the actual and projected employment figures we use throughout this article is that all are adjusted to remove the effects of seasonal fluctuations.

BACKGROUND: ALASKA'S ECONOMY

In Alaska in recent years, talk about the economy has mostly meant talk about oil. High oil prices in the early 1980s brought Alaska billions of dollars and tens of thousands of new jobs. Collapsing oil prices helped pitch the state into the current recession. And oil prices will be key in determining how fast Alaska's economy recovers over the next several years, although growth in other basic industries will take on increased importance.

Why has oil had such a pervasive influence on Alaska's economy in recent times? A lucky set of circumstances made development of the Prudhoe Bay oil field different from a number of previous developments.

Before the huge Prudhoe Bay field was developed, Alaska was a state of relatively modest means. Military and other federal government spending and a

handful of resource industries—fishing, mining, logging, and some oil production in Cook Inlet—formed the state's economic base. Alaska's cold climate, rugged terrain, and isolation made it an expensive and difficult place to do business. High costs and other factors restricted economic development. In recent years, improved transportation and communications have begun to alter those historical limitations, but most kinds of economic activities can still be carried out for less in other places.

Alaska's main draw—aside from its strategic military location—has been and continues to be its many natural resources. But in a number of past resource developments, little of the income from development made its way into Alaska's economy: entrepreneurs came in, harvested the resources, and left with most of the profits.

Unlike these earlier developments, Prudhoe Bay oil has been a bonanza for Alaska's economy and its state government. Three things made this development different. First, the state government owns the Prudhoe Bay field—which means it not only collects taxes but also royalties from oil production. Second, the Prudhoe Bay field and adjacent fields produce very large amounts of oil—currently about 1.9 million barrels a day. Finally, in 1979—soon after oil began flowing from Prudhoe Bay—the world price of oil tripled (reaching around \$30 a barrel) and stayed high for several years.

Taken together, those circumstances meant that

the state government came into billions of dollars in petroleum revenues in the early 1980s. But as a consequence, the state became extremely vulnerable to changes in the price of oil: throughout the 1980s, petroleum revenues have made up 80 percent or more of the state's unrestricted general fund revenues (which do not include federal grants or earnings of the Permanent Fund).

Figure 1 shows the tremendous growth in state government revenues from the 1970s to the early 1980s, the sharp drop-off in the late 1980s, and petroleum's contribution to state revenues. From 1972 to 1979, the state's unrestricted general revenues grew from \$220 million to \$1.1 billion, and petroleum revenues jumped from 21 percent of total revenues to 73 percent. By 1980, the state took in \$2.5 billion, and revenues kept climbing to peak at \$4.1 billion in 1982. From 1980 through 1982, petroleum revenues made up 90 percent of total revenues.

After 1982 oil prices started to fall, but it was in 1986 that prices briefly plummeted as low as \$10 a barrel. State revenues in fiscal 1987 dropped to around \$1.7 billion—a decline of more than 40 percent from the previous year, and nearly 60 percent

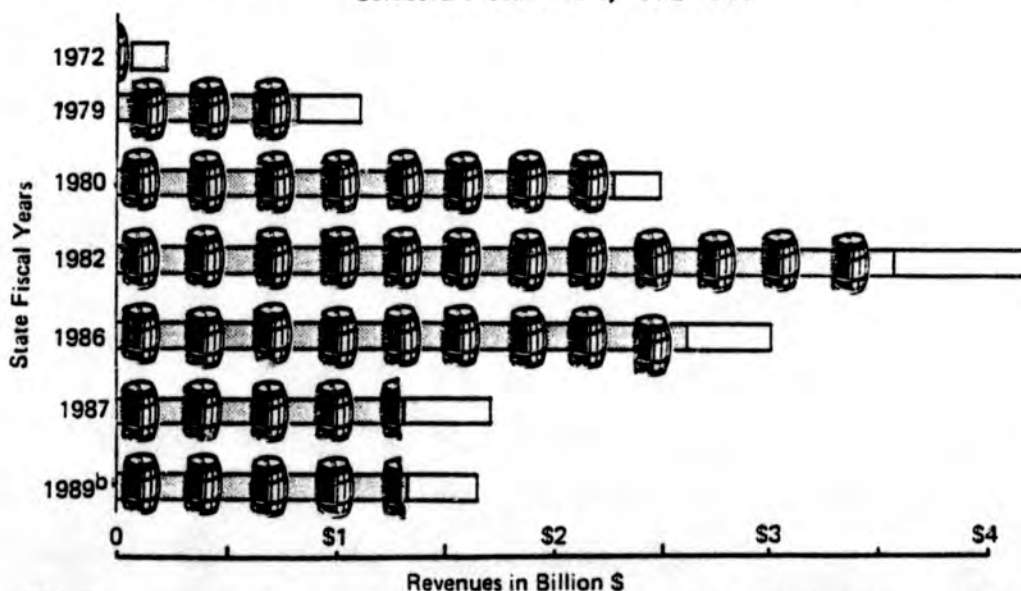
less than 1982 revenues. As of late 1987, state officials estimate that petroleum revenues in fiscal 1989 will be in the neighborhood of \$1.7 billion. Even as petroleum revenues decline, they will continue to make up more than 80 percent of the state's unrestricted general fund revenues.

THE BOOM

Expansive state spending was responsible for most of the growth in jobs, population, and incomes in Alaska from 1980 through 1985: during those five years, the number of wage and salary jobs in the state grew 35 percent, from 170 thousand to 227 thousand; population 30 percent, from 414 thousand to 540 thousand; and total personal income 70 percent, from \$5.6 billion to \$9.5 billion.

What did Alaska do with its oil billions in the first half of the 1980s? Nearly everything. The state spent most of its money in ways that reached throughout the economy—building new roads, community centers, harbors, and hundreds of other capital projects; subsidizing loans for homebuyers, students, and others; and boosting aid to local govern-

Figure 1. State of Alaska General Fund Revenues, Petroleum and Total^a
Selected Fiscal Years, 1972-1989

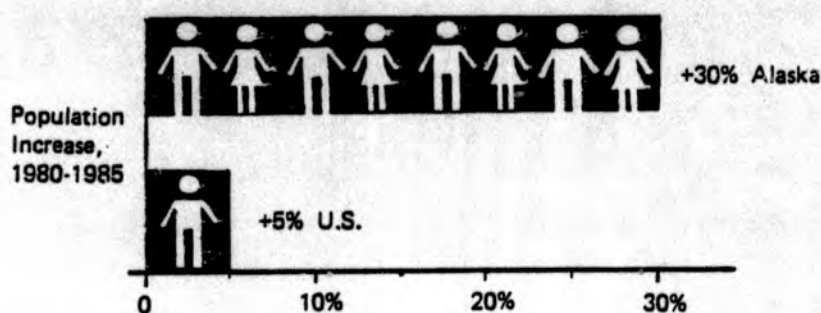


^aIncludes just unrestricted general fund revenues; excludes restricted revenues, which are mainly federal grants-in-aid. Graph represents actual revenues received with no adjustment for inflation.

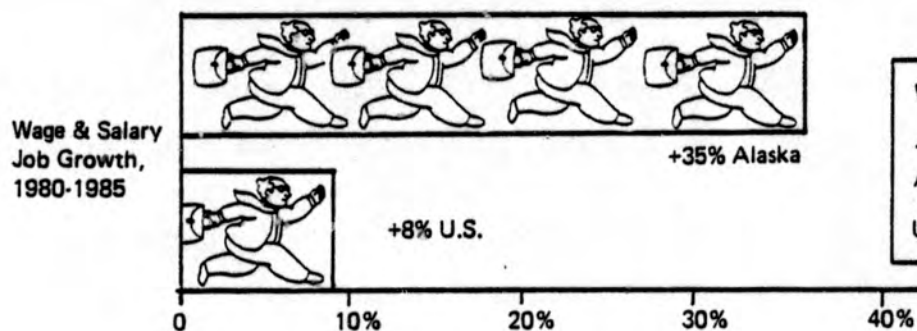
^bEstimate as of June 1987.

Source: Alaska Department of Revenue, *Revenue Sources*, FY 1987-89, Quarterly Update, June 1987.

Figure 2. Growth in Population, Jobs, and Personal Income
Alaska and the U.S., 1980-1985



Population	1980	1985
Alaska	414 thousand	540 thousand
U.S.	228 million	239 million



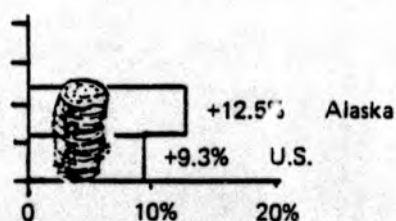
Wage & Salary Jobs	1980	1985
Alaska	170 thousand	227 thousand
U.S.	90 million	97 million

Total Personal Income Growth, 1980-1985



Total Personal Income	1980	1985
Alaska	\$ 5.6 billion	\$ 9.5 billion
U.S.	\$2,252 billion	\$3,310 billion

Growth in Real per Capita Disposable Income, 1980-1985



Real Disposable per Capita Income (1986 \$)	1980	1985
Alaska	\$14,437	\$16,245
U.S.	\$11,030	\$12,059

ments, among many other things.²

Figure 2 gives us a graphic measure of just how extraordinary the growth in Alaska was in the first half of the 1980s: it compares growth in Alaska with growth in the U.S. as a whole during that period. The population of the entire country increased about 5 percent during that time and the number of wage and salary jobs about 8 percent. Jobs and population in Alaska increased more than four times that fast. Total personal income (not adjusted for inflation) throughout the U.S. grew 47 percent from 1980 through 1985, compared with 70 percent in Alaska.

Most of the income growth in Alaska in those five years took place between just 1980 and 1982. Per capita incomes of all Americans actually grew more than those of Alaskans over the entire period from 1980 through 1985—40 percent as compared with Alaska's 34 percent. But if we look at changes in purchasing power as measured by real per capita disposable income—income adjusted for inflation and minus taxes—Alaskans fared better than other Americans in the first half of the 1980s: real per capita disposable incomes of Alaskans grew about 12.5 percent as compared with 9.3 percent for all Americans. The average purchasing power of Alaskans increased more because inflation in Alaska³ was somewhat lower than in the entire U.S. during that period, and because Alaskans paid no state personal taxes and low local taxes during those years.

THE RECESSION

We date the recession from late 1985 because it was then that the economy as a whole began losing more jobs than it was creating. The recession has now lasted two years, and we think that the worst—as measured by job loss—is now behind us. Our medium case projects that the recession will bottom out in mid-1988 and that slow but steady growth will follow.

Big government spending created the great Alaska boom by pumping billions of dollars into the economy in a short time. Construction in the state burgeoned overnight. Businesses overextended themselves, because they expected state and local government spending to keep growing and to keep stimulating the economy.

²For a detailed examination of where Alaska spent its oil billions, see "Where Have All the Billions Gone?" *Alaska Review of Social and Economic Conditions*, February 1987, Vol. XXIV, No. 1.

³Inflation in Alaska as measured by the Anchorage Consumer Price Index, which is the only time series that measures price changes in Alaska.

But the high oil prices that had propped up state spending began to drift down as early as 1982, and by late 1985 the effects of lower oil prices on state revenues and spending had brought on an economic slowdown. Construction had already started shrinking after expanding so much in the early 1980s, and businesses found that the level of economic activity they had anticipated wasn't there.

The recession began in the last quarter of 1985, before the crash in oil prices in early 1986. But that crash has made the recession longer and much more severe than it would otherwise have been, because (1) it led the oil companies to sharply curtail spending for exploration and development in Alaska; (2) it drastically reduced the budgets (particularly capital budgets) of state and local governments; and (3) it made consumers and businesses lose confidence in the economy.

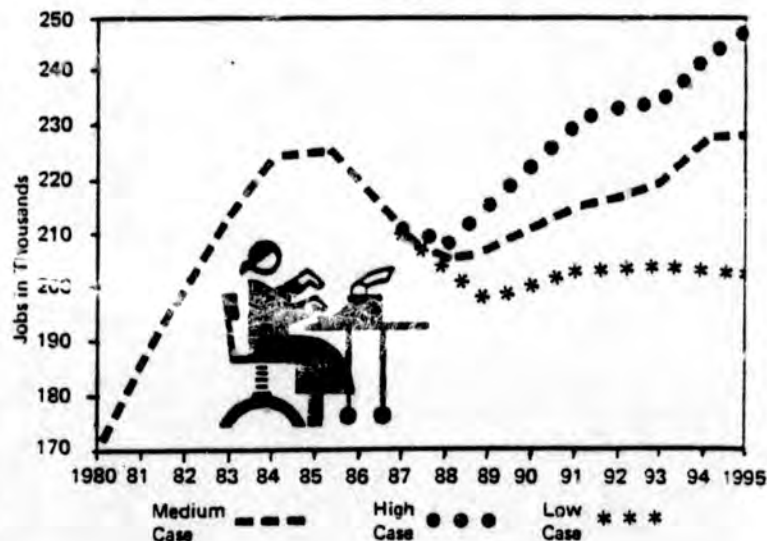
Job Loss

Our medium case projects that before the recession ends, Alaska will lose 10 percent of the wage and salary jobs it had at the employment peak in 1985. But we will still have nearly 20 percent more jobs than we had in 1980.

Figures 3 through 9 give us a picture of how many jobs were added to the Alaska economy in the first half of the 1980s and how many we're likely to lose by the end of the recession.

Figure 3 shows overall change in the number of wage and salary jobs in Alaska from 1980 through mid-1987 (as well as projected change under low,

Figure 3. Alaska Wage and Salary Employment, Historical and Projected Under Three Cases, 1980-1995



medium, and high cases, which we discuss in a later section on projections). Figures 4 through 8 are employment indexes for all Alaska wage and salary jobs and for individual industries. The number of wage and salary jobs in January 1980 is the base for the indexes—meaning that the indexes measure change from the levels of employment at the start of 1980 (January 1980 = 100). Indexing allows us to compare rates of change among the industries: which grew fastest? how did growth in any given industry compare with overall growth in wage and salary jobs? which industries have been hurt most by the recession?

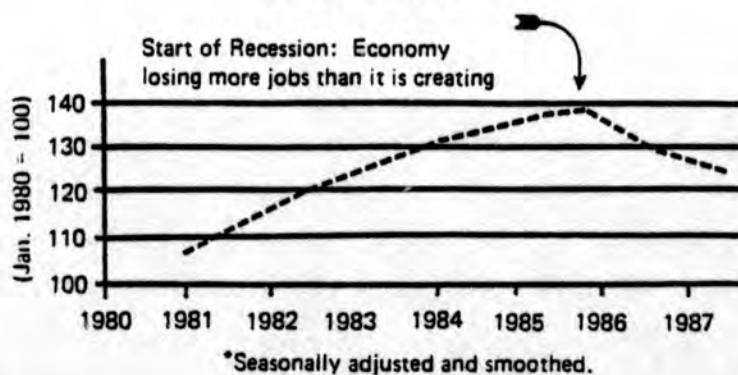
Figure 9 shows actual numbers of jobs by industry at the start of the cycle in January 1980; at the peak of the boom (individual industries peaked at somewhat different times); in July 1987; and in mid-1988, when our medium case projects that the economy will bottom out.

These figures do not include some workers who are important to Alaska's economy but who are not paid standard civilian wages and salaries: self-employed people (like small businessmen, most commercial fishermen, and farm workers) and military personnel. (Other figures in this publication look at total employment in Alaska and do include those who aren't paid standard wages or salaries.)

The overall number of wage and salary jobs in Alaska climbed steadily until the end of 1985, although jobs in one industry—construction—had been disappearing since 1984: the economy overall was still adding enough jobs to offset the losses in construction. At the employment peak—which was in September 1985—there were nearly 230 thousand wage and salary jobs in Alaska, or 38 percent more than there had been in January 1980 (Figure 4).⁴

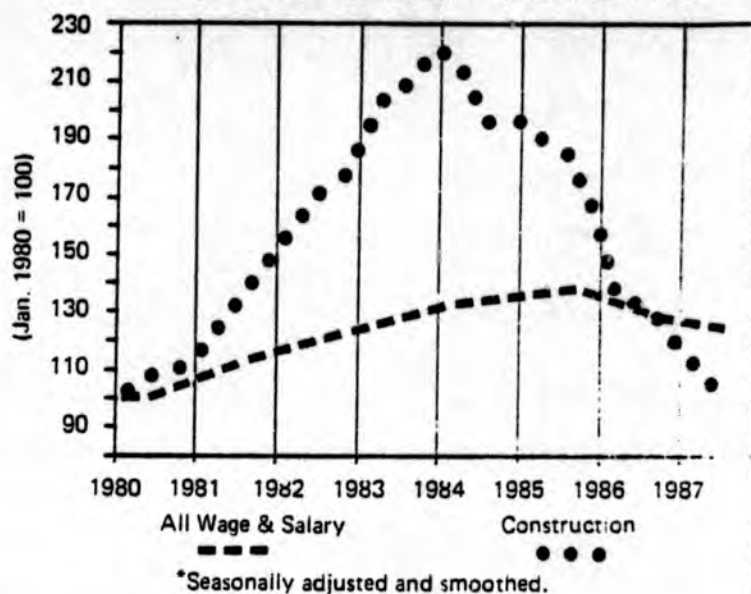
⁴The 38 percent growth in wage and salary jobs as measured on a monthly basis from January 1980 is slightly higher than the growth as measured from annual average employment in 1980—the 35 percent shown in Figure 2.

Figure 4. Alaska Employment Index*
All Wage and Salary Jobs



At the end of 1985 the total number of jobs in the state began dropping. By June 1987, the economy had lost 21 thousand jobs, and wage and salary employment stood at 209 thousand—still 25 percent higher than at the start of 1980. Under our medium case we project that Alaska will lose about 7 thousand more jobs by mid-1988. We project that Alaska will have about 202 thousand wage and salary jobs at the end of the recession—28 thousand fewer than it had in 1985, but still about 30 thousand, or nearly 20 percent, more than it had in 1980.

Figure 5. Alaska Construction Employment Index*



Construction Jobs

Construction employment in Alaska more than doubled between 1980 and 1984—but between 1984 and mid-1987 half of Alaska's construction jobs disappeared. We project that construction employment by mid-1988 will be 65 percent less than it was in 1984.

At the height of Alaska construction employment in January 1984, more than 22 thousand men and women had construction jobs—which was more than twice as many construction workers as there had been in 1980. But construction has also taken the hardest hit in the recession: by June 1987, 12 thousand of the construction jobs that existed in 1984 had disappeared—a drop of 55 percent. That loss put construction employment back just about where it had been in 1980 (Figure 5).

We project that roughly 2 thousand more construction jobs will disappear between now and the middle of 1988—mostly because the demand for construction workers in the near term is likely to be

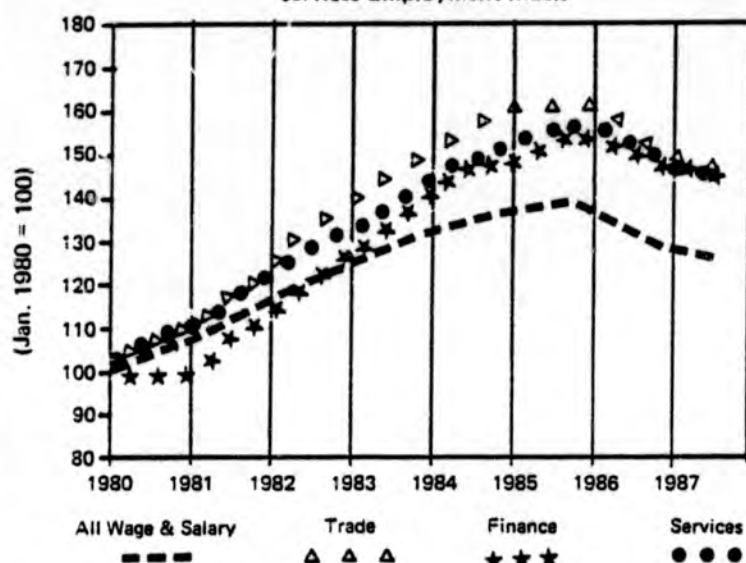
relatively low. By mid-1988, numbers of construction jobs in Alaska will be down about 65 percent from the peak 1984 level (Figure 9).

Trade, Finance, and Service Jobs

Alaska's trade, finance and service industries were second only to construction in growth in the early 1980s—they grew more than 50 percent. But they have also been hit hard by the recession: an estimated 14 percent of trade and service jobs will disappear before the recession ends.

At their peaks in late 1985, the trade, finance, and service industries each had between 50 and 60 percent more jobs than had existed in January 1980 (Figure 6). These industries include stores, banks, in-

Figure 6. Alaska Trade, Finance, and Services Employment Index*



*Seasonally adjusted and smoothed.

insurance companies, hotels, and other kinds of establishments that sell goods or offer services. Roughly 91 thousand trade and service jobs existed in Alaska in September 1985, or 40 percent of all wage and salary jobs. By June 1987 10 thousand trade and service jobs—11 percent of all such jobs—had disappeared. The finance industry had lost about 600 jobs—5 percent—of its wage and salary jobs by June 1987, but that figure does not include real estate agents and others who work for commissions rather than salaries. We don't have figures on numbers of such jobs lost during the recession, but we do know that the housing industry has been one of the most visible casualties of the economic downturn.

Our medium case projects that another 3 thousand trade and service jobs will disappear before the recession ends. We expect more job loss in those

industries because of the business overextension we described earlier. Some of the rapid expansion of trades and services in the early 1980s was based on businesses' expectation that markets would continue to grow—so some of the job loss to date has been the result not of shrinking markets but simply of markets that stopped growing. Also, consumers' and businesses' general lack of confidence in the economy right now will continue to hurt the trade and service industries. Overall from the peak in 1985 through mid-1988, 14 percent of trade and service jobs will likely disappear (Figure 9).

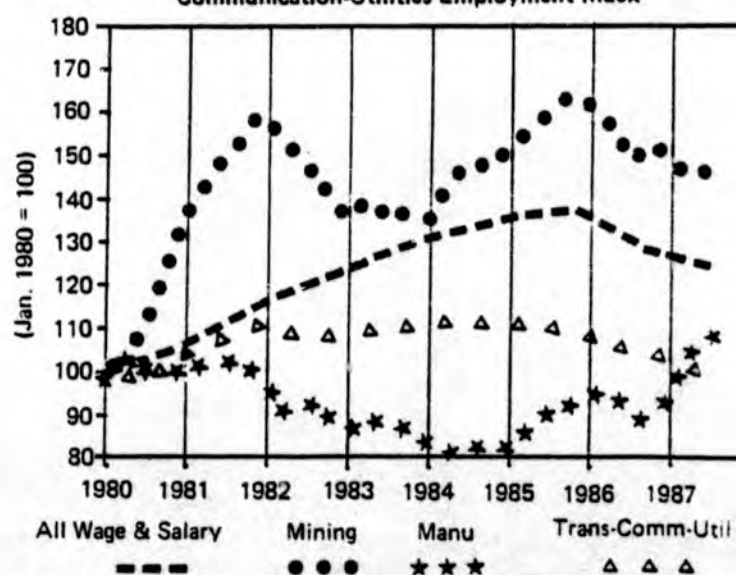
Mining, Manufacturing, and Transportation, Communications, and Utilities Jobs

Led by growing numbers of petroleum jobs, mining employment in Alaska in the early 1980s was up 60 percent—but the recession eliminated about 10 percent of mining jobs. Numbers of jobs in transportation, communications, and utilities grew a much more modest 11 percent—and declined by the same amount between 1985 and 1987. Jobs in manufacturing—which consist mainly of seafood processing and timber industry work—have actually increased during the recession.

Mining jobs shown in Figures 7 and 9 are almost entirely jobs in the petroleum industry.⁵ Numbers of such jobs grew quickly in the first half of the 1980s.

⁵Figures 12 and 13 later in the text separate petroleum from other mining activity.

Figure 7. Alaska Mining, Manufacturing, and Transportation-Communication-Utilities Employment Index*



*Seasonally adjusted and smoothed.

as high oil prices prompted the oil industry to sharply increase exploration and development on the North Slope, and as some oil companies increasingly shifted management and support jobs to Anchorage from other U.S. cities.

About 1 thousand—or nearly 10 percent—of the roughly 10 thousand mining jobs in Alaska in 1985 disappeared with the crash of oil prices. We project that the number of petroleum jobs will rebound slightly by mid-1988, if oil prices stabilize in their current range and the oil industry begins to recover. Still, as Figure 9 shows, by the end of the recession there are likely to be about 9 percent fewer petroleum jobs than there were in 1985.

The numbers of Alaska jobs in the transportation, communication, and utilities industries grew about 11 percent between 1980 and 1985—a much slower rate than overall job growth during that period. The number of jobs in those industries declined from a peak of about 19 thousand in mid-1985 to 17 thousand two years later. That loss brought the industries down to roughly the size they were in 1980, and we expect them to remain about the same through the middle of next year (Figure 9).

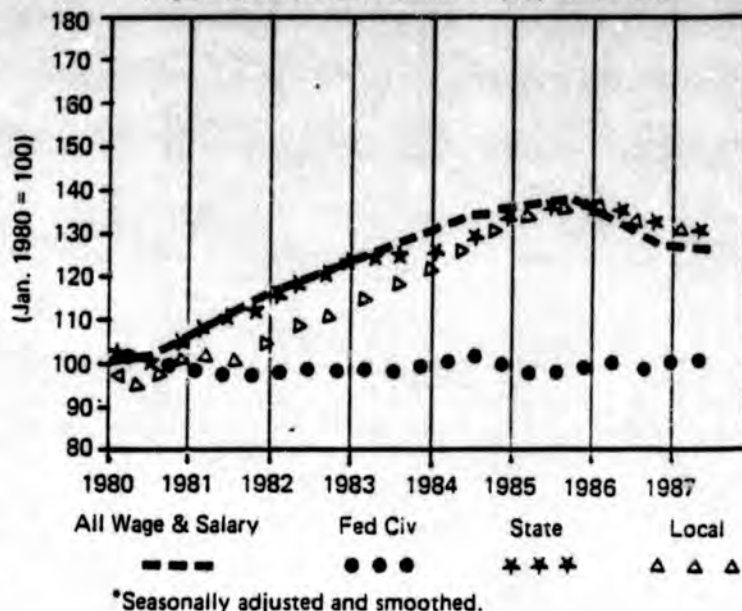
Alaska's manufacturing industries depend not on state government spending but on the size of the harvests and the demand for Alaska's fish and timber. In the early 1980s, when other parts of the economy were growing, overall employment in manufacturing actually dropped—and during the recession, when other industries have shrunk, these industries have grown. As Figure 7 shows, manufacturing employment in the 1980s was at its lowest point in 1984 and 1985 and then began to rebound. By July 1987 there were nearly 15 thousand jobs in manufacturing—or 6 percent more than there had been in 1980. We project under our medium case that numbers of Alaska jobs in manufacturing will decline slightly by the middle of next year (Figure 9).

Government Jobs

Numbers of state and local government jobs in Alaska grew about 37 percent between 1980 and 1985—just about the same amount that overall numbers of wage and salary jobs grew. By mid-1988, state and local governments will likely be employing about 11 percent fewer Alaskans than in 1985. Federal civilian jobs, unaffected by the ups and downs of petroleum revenues, have helped moderate the effects of the recession.

About 50 thousand Alaskans—22 percent of all Alaska wage and salary employees—worked for state and local governments in October 1985. That represented a 37 percent increase in numbers of state and local jobs between early 1980 and late 1985 (Figure 8). More than 3 thousand of those state and local

Figure 8. Alaska Government Employment Index*



jobs had disappeared by July 1987. The drop in state and local jobs to date has been relatively modest as compared with the huge drop in anticipated petroleum revenues. This has been true because governments concentrated their early budget cuts in capital spending and other areas that affected fewer jobs.

Our medium case projects that numbers of state and local jobs in Alaska will continue to shrink through mid-1988, as governments around the state continue to adjust to less money. By June 1988, about 2 thousand more state and local jobs are likely to disappear (Figure 9).

Numbers of federal civilian jobs in Alaska have changed little in the 1980s. At the start of the decade there were nearly 18 thousand such jobs in Alaska. Those numbers declined a bit in the early 1980s, but grew again recently. And as Figure 9 shows, we expect about the same number next year. These federal jobs have historically and still do provide some stability for the volatile Alaska economy.

Income Loss

Real personal income (income adjusted for inflation) in Alaska dropped about 5 percent from late 1985 through early 1987. Our medium case projects that at the bottom of the recession real personal income will be about 8 percent below its 1985 peak, but still about 27 percent higher than in 1980 (Figure 10).

Measured in 1986 dollars, Alaska personal income from all sources reached a high of \$9.7 billion in the third quarter of 1985 and fell to about \$9.2 billion in the first quarter of 1987. However, we

Figure 9. Alaska Wage and Salary Jobs, By Industry, Selected Years, 1980-1988

	January 1980	Employment Peak ^a	July 1987	June 1988 ^b	PERCENT CHANGE BY JUNE 1988	
					From the Peak	From 1980
Construction	10,000	22,000 (Jan. 1984)	10,200	8,000	-64%	-20%
Trade & Services ^c	58,000	91,400 (Nov. 1985)	82,100	79,000	-14%	+36%
State & Local Govt.	36,750	50,200 (Oct. 1985)	47,100	45,000	-11%	+22%
Transportation, ^c Communication, Utilities	17,000	19,000 (May 1985)	17,000	17,000	-11%	0%
Finance, Insurance, Real Estate	7,740	11,800 (Oct. 1985)	11,000	11,000	-7%	+42%
Petroleum & Mining	6,000	9,800 (Sept. 1985)	8,700	9,000	-9%	+50%
Federal Civilian	17,900	17,600 ^a (Sept. 1985)	18,000	18,000	+2%	+1%
Manufacturing ^d	13,800	12,800 ^a (Sept. 1985)	14,700	14,000	+10%	+1%

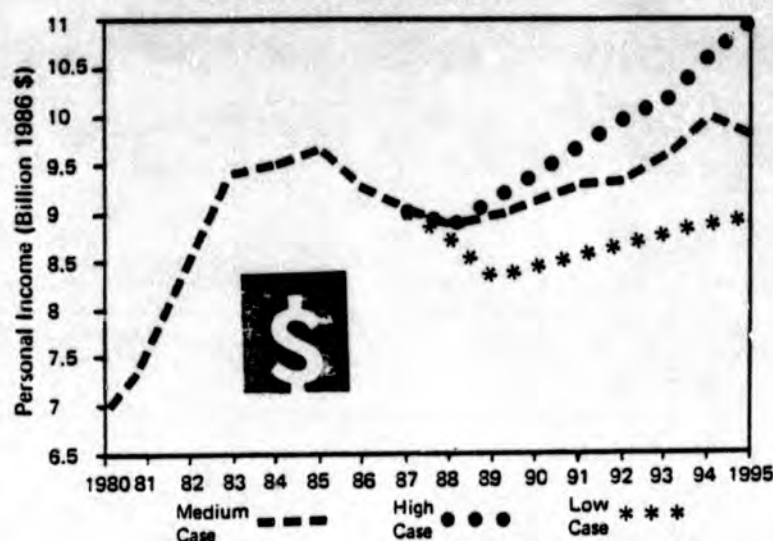
^aEmployment in various industries peaked at somewhat different times, but mostly in late 1985. Federal civilian and manufacturing employment did not peak in 1985.

^bAs projected under the medium case economic projections from ISER's report, *Alaska's Economy and Housing Market*.

^cTourism accounts for a portion of employment in these industries; tourism employment has not declined in recent years.

^dThis category is largely made up of seafood processing and timber harvesting and processing. It does not include employment in fish harvesting, which has not declined. Most commercial fishermen do not work for standard wages or salaries.

Figure 10. Alaska Real Personal Income (in 1986 \$)
Historical and Projected Under Three Cases,
1980-1995



think the federal Bureau of Economic Analysis (BEA) figures showing such a modest decline in personal income may be misleading for two reasons. First, the statistics probably don't adequately gauge the severity of the drop in Alaskans' personal income from rents, interest, and dividends or the drop in proprietors' income; accurate information on those sources of income is available only after a considerable delay. Second, personal income does not measure the capital gains and losses for property owners when values go up and down—so "personal income" is really an incomplete gauge of both consumer purchasing power and economic well-being, particularly in times of rapid economic change. Despite these shortcomings, the BEA figures are the best available on personal income.

Population and Household Losses

Alaska's population reached 540 thousand in 1985—up 30 percent from 1980. Our medium case projects that by the middle of 1988 the state population will be about 3 percent smaller, to stand around 524 thousand (Figure 11). Numbers of households will likely drop about the same proportion.

There are several reasons why we expect the population and household loss to be smaller than job loss, which we project at 10 percent. One reason is that many of the jobs Alaska has lost during the recession were in construction, and many construction workers in the state have historically been non-residents.

Other reasons have to do with natural increase in the population and changes in its composition. The

number of people we expect to live in Alaska in 1988 is the net result of people coming to and leaving the state and of natural increase within Alaska. If the 540 thousand persons living in Alaska in 1985 had all stayed and no one else had emigrated to the state, natural increase alone would have added roughly 30 thousand to the population by 1988. Also, the proportion of working-age adults (those 16 to 64) in the Alaska population seems to be declining as babies are born and as some families with working-age adults leave the state.

Also, not all those who have lost their jobs have left the state—some have stayed, either continuing to look for work or dropping out of the labor force at least temporarily. Finally, some Alaskans—particularly those over 65 and Alaska Natives—are not as likely to base their decisions about staying in Alaska on job opportunities.

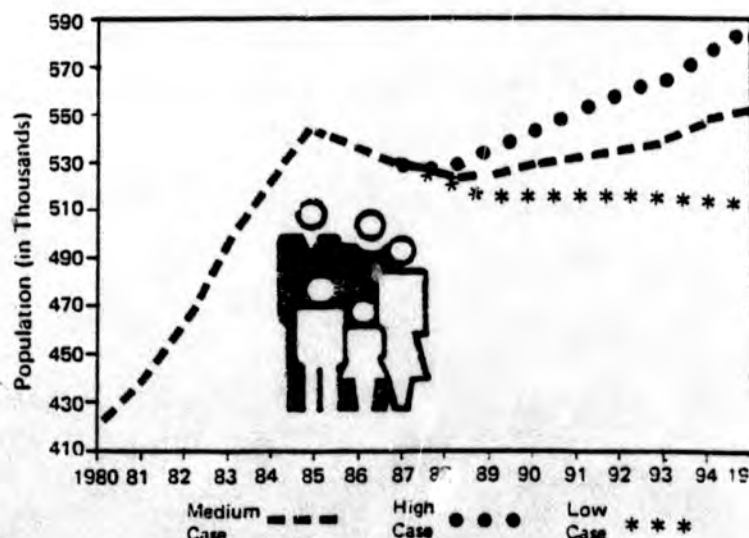
Regional Effects of Recession

The effects of both the economic recession and the boom that came before have been concentrated in those regions of Alaska where petroleum, support industries, and government are most important.

Anchorage's economy has seen the most growth and the most decline in the 1980s. Numbers of wage and salary jobs in Anchorage grew 43 percent between 1980 and 1985, as compared with just 10 percent in southeast Alaska; job growth in other regions fell between those extremes, with job growth throughout the state during that period at 35 percent.

Anchorage and the adjacent Mat-Su Borough

Figure 11. Alaska Population,
Historical and Projected Under Three Cases,
1980-1995



have also seen the most jobs disappear during the recession: of the 21 thousand jobs Alaska lost between late 1985 and mid-1987, Anchorage lost 14 thousand—or two-thirds of the total. The North Slope, site of Prudhoe Bay and other oil fields, has also been hit by job loss in the wake of low oil prices.

Regions that rely more on basic industries other than petroleum have been less severely affected by the downturn in the economy—although all regions have seen job opportunities shrink, personal income decline, and unemployment increase.

THE RECOVERY: ECONOMIC PROJECTIONS

What can stop the downward spiral of Alaska's economy and start it growing again? Essentially, we expect the recession to end when the excess capacity—capacity above what Alaska's economy can sustain in the absence of huge petroleum revenues—in the construction, state and local government, and support industries has been eliminated. We are most of the way to that point now, and we expect the economy to bottom out around the middle of next year.

But what then? What can we point to that will start Alaska's economy growing again? Unlike in the recent past, when we have looked to specific big projects to get the economy moving, this time we think it most likely that a slow but steady recovery will be led by gradual growth in Alaska basic industries. The basic industries are those that drive the economy by producing goods or services for export and sale to the rest of the U.S. Alaska's most important basic industries are petroleum, other mining, fishing, timber, tourism, and federal government activities, both civilian and military. We classify federal activities as a basic industry for Alaska because the federal government's activities here are for the benefit of the whole country rather than just Alaska, and because military and most federal civilian jobs are independent of economic activity in Alaska.

The initial move toward recovery will be prompted by basic industries other than petroleum. All these are relatively healthy, they have helped moderate the current economic decline, and they have opportunities for expansion.

In the longer run, recovery of the petroleum industry will be key to Alaska's economic recovery. The recovery of the petroleum industry in Alaska is at least two years away, because of the long lead times needed for developing major North Slope fields and because the world oil price has not yet stabilized at a level that justifies significant new North Slope development. We expect oil prices over the next few years to fluctuate within a band of about \$2 on either side of the current world oil price of around

\$18 a barrel. With oil prices in that range, the industry will begin a slow recovery and will cautiously undertake carefully selected development activities. After 1990, the price of oil should firm and more exploration and development will take place in Alaska.

All of Alaska's basic industries are important to the economy, but petroleum is and will remain throughout the forecast period the state's dominant basic industry—because of its contribution to gross state product and its potential for expanding rapidly and stimulating the economy.

Figures 12 and 13 show the contributions of the basic industries to employment and to what economists call "value added," and help explain why we emphasize the importance of petroleum to Alaska's economy. If we look just at numbers of jobs each industry contributes to the economy, we would judge petroleum to be an important but not a dominant industry: in 1986 (the most recent year for which we have figures) 12 percent of the basic industry jobs in Alaska were in petroleum, while the federal government was responsible for 54 percent of basic jobs. Fishing and seafood processing together accounted for another 20 percent. Tourism contributed another nearly 8 percent of basic jobs, logging and timber processing 4 percent, mining other than petroleum about 2 percent, and agriculture 1 percent.

But if we look at *value added* by each of the basic industries—a much more comprehensive measure of the potential contribution of an industry to the economy—a different picture emerges. Value added consists primarily of the wages and salaries contributed by an industry, taxes paid (federal, state, and local), depreciation, and profits generated⁶—profits that are the source of money for new capital spending. Taxes paid by the petroleum industry have paid for most of state government operation in the 1980s; profits from Prudhoe Bay oil prompted the oil companies to undertake big new capital projects on the North Slope. Of course, not all of this value added remains in Alaska—federal taxes and much of the profits do not stay in Alaska.

Figure 13 shows how Alaska's basic industries contribute to value added. The percentages cited are for 1984, the most recent year for which we have calculated these figures. Oil prices were higher then—so the current contribution of petroleum would be smaller in relation to those of the other industries. But the general picture would be the same: petroleum creates much more "value added" than do the other basic industries combined.

Together, Alaska's basic industries other than petroleum are responsible for about 70 thousand jobs

⁶Including royalties in the petroleum industry.

Figure 12. Alaska Basic Industry Employment 1986

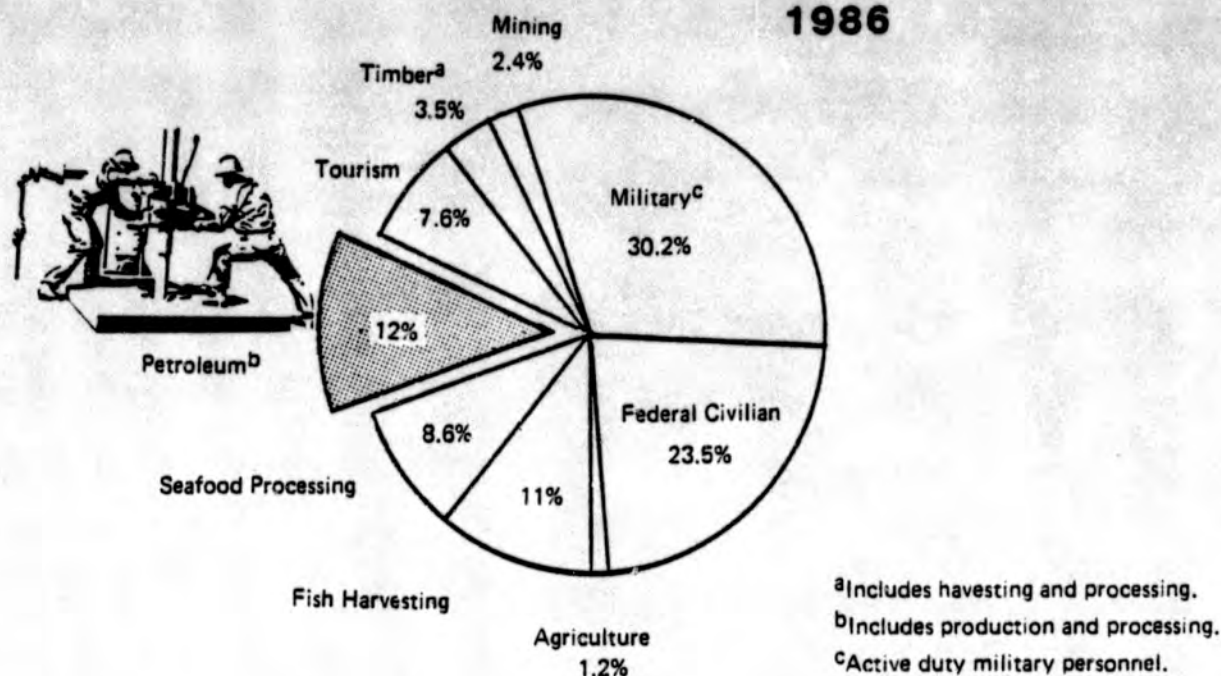
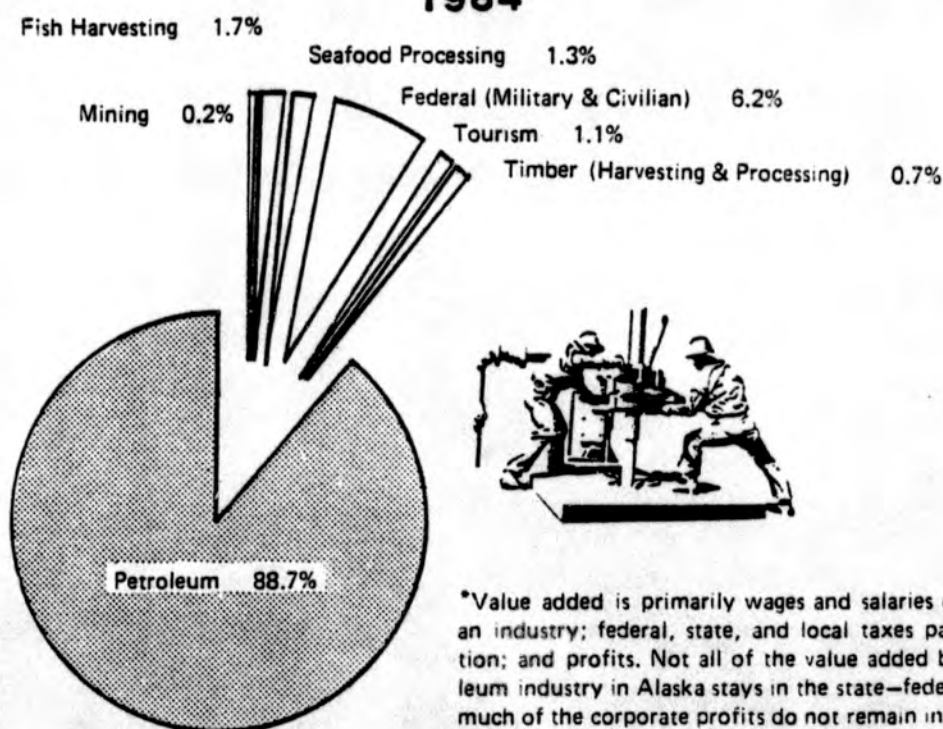


Figure 13. Value Added* of Alaska Basic Industries 1984



Note: Agriculture's contribution to value added in 1984 was 0.03%—too small to show on the chart.

in Alaska—and more jobs in those industries will certainly benefit Alaska's economy. We just want to point out here that job creation is only one of several measures of an industry's contribution to the economy.

Summary: 1980-1995

Figure 14 summarizes historical and projected changes in Alaska population, wage and salary jobs, and personal income from 1980 through 1995. Figure 15 divides all Alaska jobs (wage and salary and other) into four categories and shows historical and projected changes in their absolute and relative sizes.

Figure 14 tells us that while the current recession is severe, it is not taking away all the gains we made in the first half of the 1980s. It also shows that the economic recovery—as projected under our medium case—will be slow as compared with growth in the recent past.

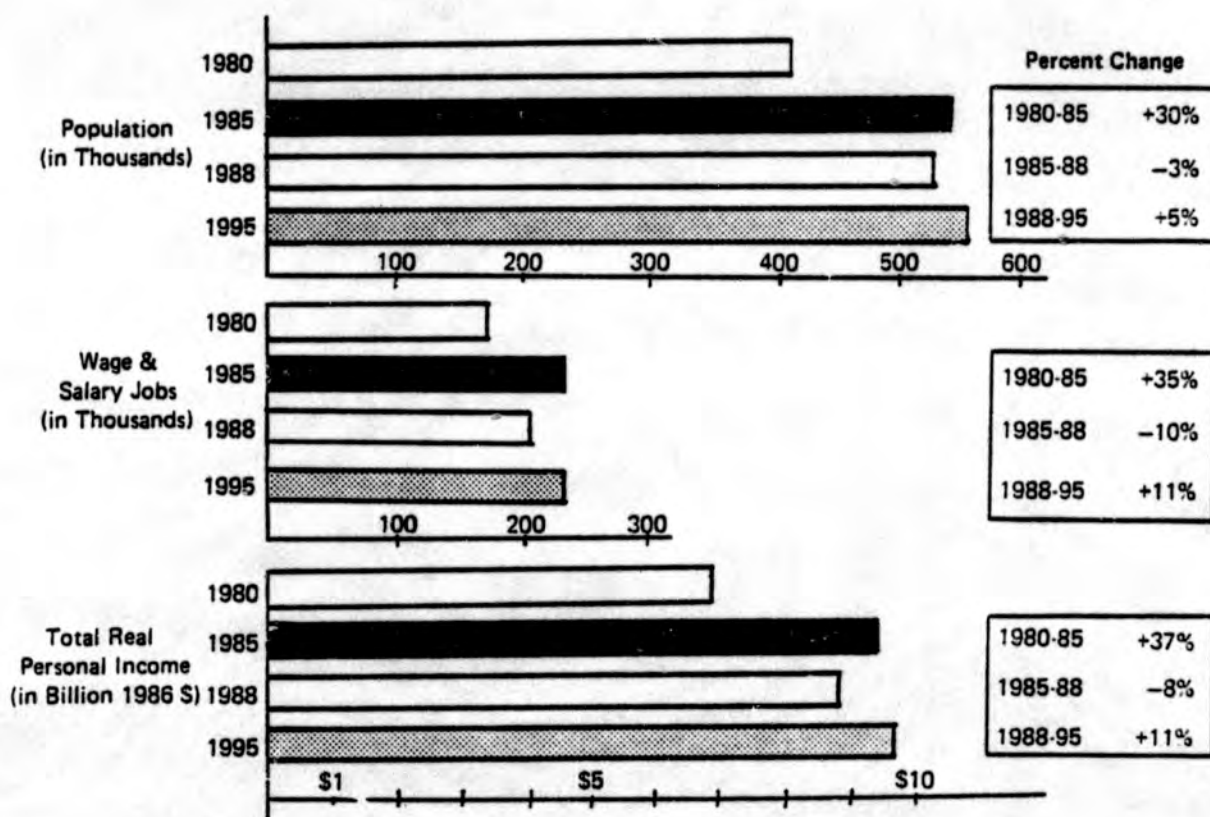
Alaska's population grew 30 percent between 1980 and 1985. Between 1985 and mid-1988 it will likely drop about 3 percent, and grow by 5 percent between 1988 and 1995.

Numbers of wage and salary jobs grew 35 percent in the first half of the decade, and are projected to drop 10 percent by 1988. Between 1988 and 1995 such jobs would increase by 11 percent under our medium-case projections.

Total real personal income (inflation-adjusted, in 1986 dollars) rose 37 percent between 1980 and 1985, and is projected to drop 8 percent by the bottom of the recession. Under our medium-case projections, real income will increase about 11 percent from 1988 to 1995.

Figure 15 divides all Alaska jobs into basic jobs, support jobs, infrastructure jobs, and state and local government jobs. Basic industry jobs, as we noted earlier, are those that drive the economy by

Figure 14. Historical and Projected^a Change in Alaska Population, Jobs, and Income, 1980-1995



^aAs projected under medium-case economic projections prepared for *Alaska's Economy and Housing Market*, ISER report, October 1987.

producing goods or services for export. The other kinds of jobs shown in the figure—support, infrastructure, and state and local government—are generated by basic industry activity: all those jobs in one way or another produce goods or services for local use. The industries that make up the support and infrastructure categories are listed at the bottom of Figure 15.

Between 1980 and 1985 the number of basic jobs in Alaska grew less than 10 percent, while numbers of support, infrastructure—particularly construc-

tion—and state and local government jobs grew several times that fast. As we discussed earlier, those high levels of support and other non-basic jobs could be sustained only when the state government was pumping billions of dollars into the economy.

With the crash of oil prices and the abrupt decline in state spending, Alaska's non-basic industries began to shrink, moving back toward the relationship they had with the basic industries before the boom.

Wage and Salary Jobs

Numbers of wage and salary jobs in Alaska would increase about 1.4 percent annually between 1988 and 1995 under our medium-case projections.

Figure 3 shows that under the medium case, numbers of wage and salary jobs would regain their 1986 levels by 1994. If the economy grows faster, Alaska could have about 8 percent more jobs by 1995; under the worst case, very few jobs would be created between 1988 and 1995.

New Basic Industry Jobs

Our medium case projects that about 7 thousand jobs will be added to Alaska's basic industries between now and 1995—which would be an increase of about nine percent. Those increases will be largely in military and mining (including petroleum) employment, but all basic industries should see some growth.

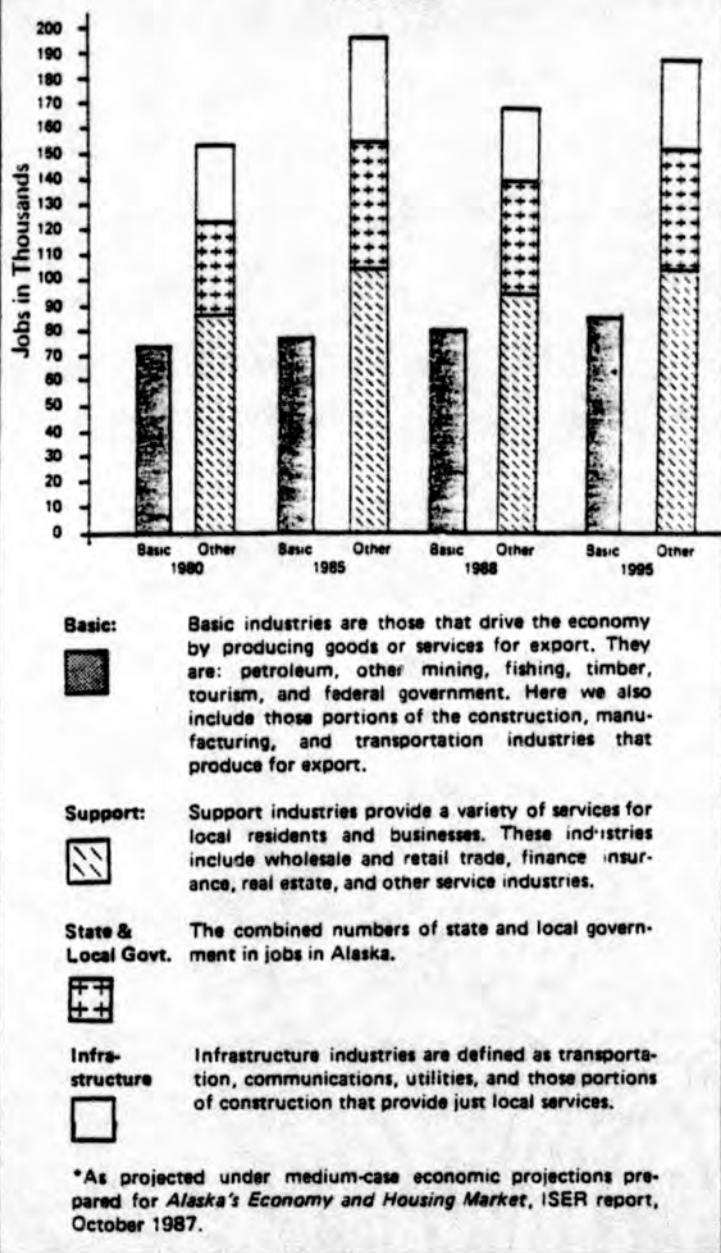
As Figure 16 shows, numbers of basic industry jobs could be slightly higher or somewhat lower if the economy grows faster or slower than under the medium case.

The Red Dog Mine in northwest Alaska and the Greens Creek Mine in the southeast will be the two main additions to Alaska's mining industry in the short run. A number of smaller mines in the interior and southeast regions of the state are in the early stages of development.

Alaska's fishing industry is benefiting from strong demand for seafood and from recent U.S. legislation that excludes foreign fishing boats from certain fisheries. Opportunities exist for growth in mariculture, bottom fishing, and specialty markets. Fishing is a dynamic and very competitive industry, and Alaska producers and processors will have to adapt to changing technologies and market conditions. We assume the number of jobs in the Alaska fishing industry will grow moderately between now and 1995.

The timber industry has been enjoying a boom in Alaska recently, particularly in the southeast region, because Native corporations that received lands under terms of the Alaska Native Claims Settlement Act have been harvesting more timber. We anticipate

Figure 15. Historical and Projected* Changes in Alaska Basic and Other Jobs, Selected Years, 1980-1995



that increased logging from Native lands will continue into the early 1990s and that employment will then stabilize. No additional processing of timber—beyond what is already being done—is likely to take place in Alaska during the forecast period.

We expect tourism to continue to grow. Among the large projects now being discussed are new visitor facilities at Denali National Park and a large winter resort just north of Anchorage. Anchorage has also put in a bid to host the 1994 Winter Olympics. The state government and others are increasing their efforts to bring foreign tourists to Alaska—efforts that are being helped by the fall in the value of the dollar relative to some foreign currencies. We expect the numbers of tourists traveling to Alaska to continue to grow as they have historically.

Even with the potential growth we've described in other basic industries, it is military employment in Alaska that we expect to grow most rapidly over the next few years. A new light infantry division that is scheduled to be assigned to Fairbanks between now and 1989 will add nearly 4 thousand military and federal civilian jobs to the economy.

Future of State and Local Government Jobs

We assume there will continue to be pressure to hold government wages down, so more people can have jobs. Our medium case projects that if those wage rates are held down, numbers of state and local government jobs will begin to recover after 1988 and by 1993 regain the jobs lost during the recession (Figure 17).

Figure 16. Alaska Basic Industry Employment, Historical and Projected Under Three Cases, 1980-1995

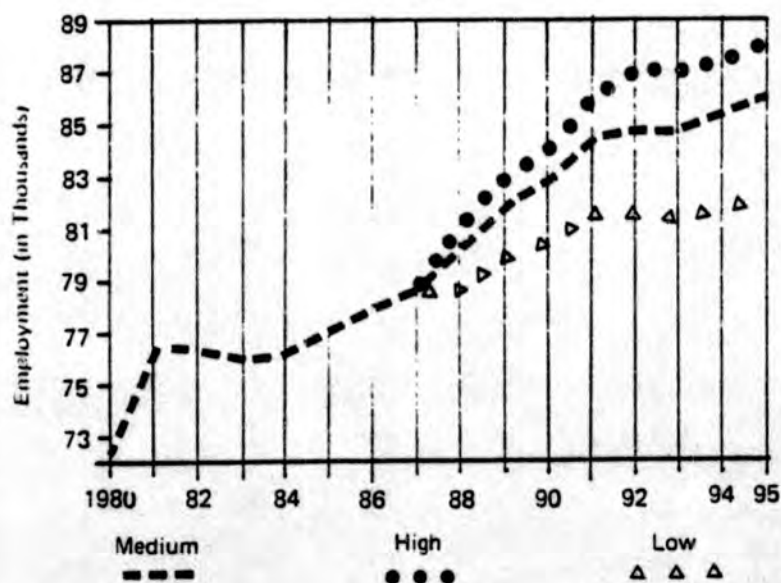
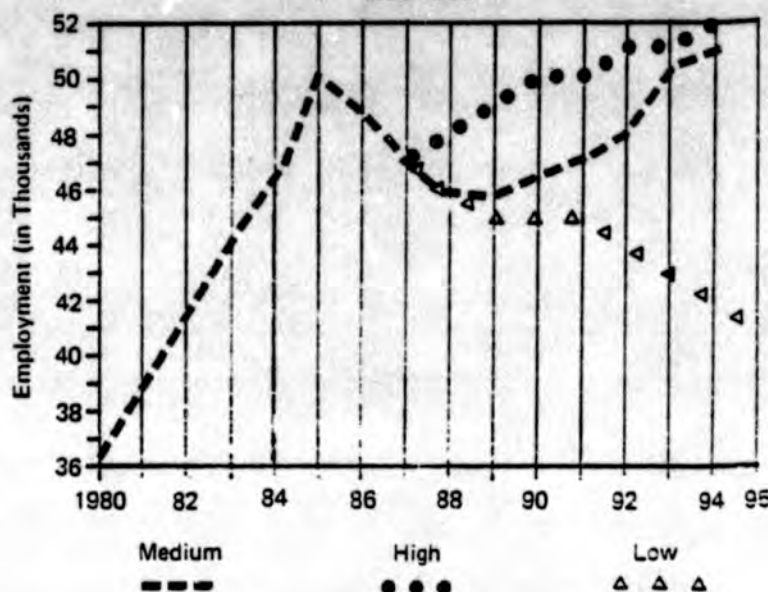


Figure 17. Alaska State and Local Government Employment, Historical and Projected Under Three Cases, 1980-1995



Less oil money has meant that the state government and all local governments have had to cut spending back sharply. They have tried to keep layoffs to a minimum by concentrating budget cuts in capital spending, loan programs, and equipment and supply purchases. They have also attempted to hold down wages.

We think that the unprecedented severity of the current recession will put tremendous pressure on state and local governments to maintain spending at or near its current level while at the same time holding the line on household and business taxes. Evidence of that pressure are the modest budget cuts the 1987 Alaska Legislature made in the state operating budget, even though the state Department of Revenue was concurrently projecting deficits of several hundred million dollars for that year and coming years.

Could the state keep spending near its current level, if oil prices stabilized slightly above or slightly below the current world price of about \$13 a barrel? For the state government to maintain its current spending level of about \$2 billion annually (in 1986 dollars) through 1995 would require using some combination of a number of possible sources: potentially large cash settlements of pending litigation, a portion of Permanent Fund earnings, personal income taxes, or increased petroleum tax rates. The timing and the specific choices among these possible measures would have slightly different effects on the overall state economy. We are not advocating any of these measures—we are just pointing out that they

would be required to maintain current levels of state spending if oil prices stay at around \$18 a barrel.

If oil prices are higher than we assume under the medium case, state revenues would be higher and could reduce pressure to tap other revenues and could push up state and local employment. But if oil prices drop much lower than we expect, state and local employment could continue to decline through 1995 (Figure 17).

Infrastructure and Support Jobs

The infrastructure industries and the support industries will be the slowest to recover. That slow recovery of these industries will keep overall wage and salary employment in Alaska below the 1985 peak until 1994 (Figures 18 and 19).

During the boom the infrastructure and support industries became much bigger than the Alaska economy could sustain without huge state spending: that excess capacity will take time to absorb. Also, real incomes of Alaskans will be lower, and there will be less government spending for capital goods, services, and equipment. The construction industry—which is the segment of the infrastructure industry that has been hit hardest by the recession—will remain smaller than we might expect even after economic growth resumes, until the many vacant Alaska residential and commercial properties have been filled.

If the economy grows faster or slower than we project under our medium case, infrastructure employment could be 10 to 15 percent higher or lower

Figure 18. Alaska Infrastructure Employment, Historical and Projected Under Three Cases, 1980-1995

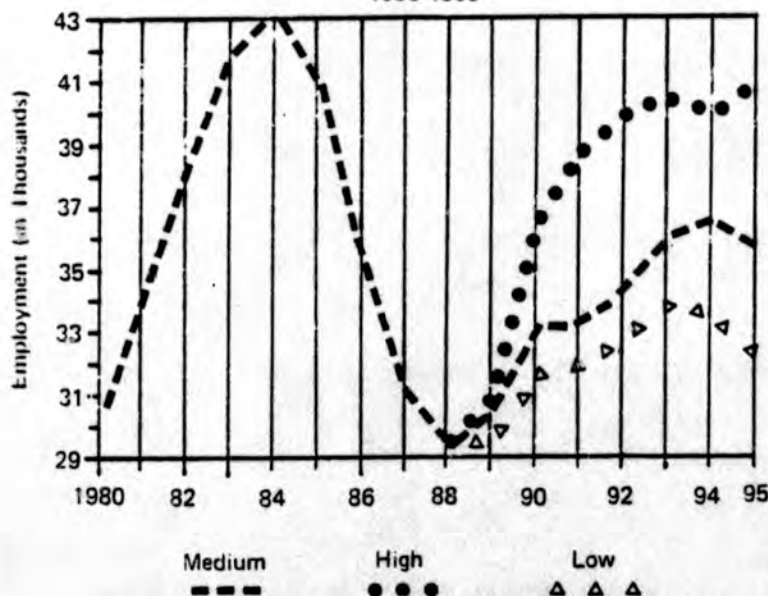
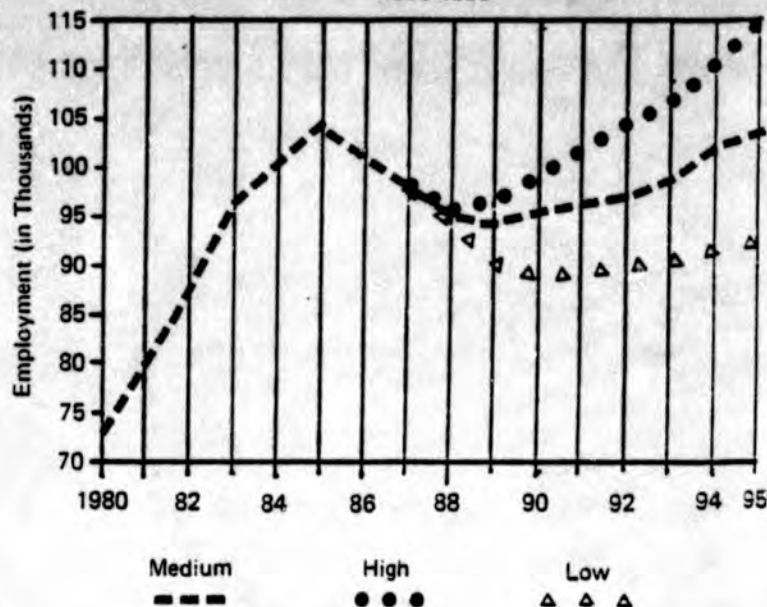


Figure 19. Alaska Support Industry Employment, Historical and Projected Under Three Cases, 1980-1995



by 1995, and support employment about 10 percent higher or lower (Figures 18 and 19).

Personal Income

Personal income in Alaska will begin growing again as employment grows, and our medium case projects that by 1994 real personal income—income adjusted for inflation—will be about 2 percent higher than it was in 1985, and roughly 40 percent higher than it was in 1980 (Figure 10).

Real per capita disposable income—which is income per Alaskan, adjusted for inflation and minus taxes—will grow little between now and 1995, if personal state income taxes are reimposed or Permanent Fund dividends are eliminated. Either of those measures would keep real per capita disposable income in 1994 at around \$15 thousand—about \$1 thousand below its 1983 peak of \$16 thousand. (All these figures are in 1986 dollars.) Faster or slower growth than under the medium case could make real personal income roughly 12 percent higher or lower by 1995.

Population and Household Growth

Our medium case projects population on average to grow just under 1 percent a year from 1988 through 1995 (Figure 11).

Just as more jobs than people disappeared during the recession, jobs will be created faster than the population grows during the recovery—about 1.4 percent annually as compared with less than 1 percent.

under our medium-case projections. That will happen because as new jobs become available in Alaska, they will be taken by those already in the state who had been unable to find jobs before, or who had stopped looking for work until the economy began to pick up. Population growth in Alaska in the next few years will be mainly through natural increase rather than emigration to the state.

Numbers of Alaska households will grow slightly faster than the population—just over 1 percent annually—because the average household is likely to become smaller in the coming years, continuing recent trends. By 1991, the numbers of households in the state will exceed the previous high of 1985—but the composition of those households will be different. The numbers and the proportions of military and Native households will increase relative to numbers and proportions of civilian non-Native households.

Under faster or slower economic growth, Alaska could have about 7 percent more or fewer residents by 1995.

Regional Economic Recovery

We expect—based on our medium-case projections—that the economies of Fairbanks and nearby areas and of southeast Alaska will recover fastest, because most of the basic industry growth in the next few years is projected to be in those regions.

Fairbanks will enjoy a stronger recovery than some other areas of the state because most of a new light infantry division will be stationed there over the next few years. We also expect some growth in the timber and fishing industries, which are important to Kodiak, the Aleutians, and parts of the southeast region.

On the other hand, the Anchorage and North Slope regions will likely be the slowest to recover, because they depend heavily on the petroleum industry and on state spending. Anchorage's recovery will also be hampered by excess capacity in its support industries; it will take time for the market to absorb that excess. Other regions of the state will either remain stable or begin slow growth in 1989.

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH

The University of Alaska's Institute of Social and Economic Research (ISER) studies the population and economy of Alaska to help public and private agencies and individuals better understand social and economic change in Alaska and enable them to make more informed decisions about Alaska's future.

Alaska's size, geographic isolation, resource-based economy, small population, young political institutions, urban-rural differences, and other characteristics make it unique among the states, but similar to other northern regions. For that reason, ISER examines not only those issues unique to Alaska but those relevant to other northern areas as well. ISER research provides specific information needed by policymakers and others as well as broad-based knowledge of Alaska's social, economic, and political processes.

As part of the University of Alaska Anchorage, ISER shares that institution's mission of serving the higher educational needs of the state's largest population, business, and government center. ISER's faculty and staff produce and disseminate knowledge about Alaska by carrying out a wide variety of research projects, by teaching, by involving students in research, and through many public service activities.

OTHER ISER PUBLICATIONS

Institute of Social and Economic Research (ISER) publications over the past 25 years have looked at virtually all the major economic and social issues facing Alaska. A list, by topic, of hundreds of ISER publications is available from ISER in the library building on the campus of the University of Alaska Anchorage (phone 907-786-7710). Below are brief descriptions of some recent work which ISER produced or contributed to. Unless otherwise noted, all publications are available from ISER, University of Alaska Anchorage, 3211 Providence Drive, Anchorage, Alaska 99508 (907-786-7710).

Alaska State Government and Politics, edited by Gerald A. McBeath, professor of political science with the University of Alaska Fairbanks, and Thomas A. Morehouse, professor of political science with ISER, University of Alaska Anchorage. Published by University of Alaska Press, 1987, 400 pages. Soft-cover copies \$17.00 and hardbound \$27.00, plus \$1.50 for postage and handling if ordered by mail. Available from University of Alaska Press, Signers' Hall, University of Alaska Fairbanks, Fairbanks, Alaska 99775-1580.

The first book that comprehensively describes Alaska state government and politics is now available from the University of Alaska Press. The book describes the authorities, organization, and functions of state government as well as the people and the events that put life into government operations. It also discusses the private forces that influence government, including the press, public opinion, and interest groups. The book was written by eleven political scientists and one historian, all of whom now teach or previously taught at the University of Alaska. Several of the authors have also been directly involved in state government.

Developing America's Northern Frontier, edited by Theodore Lane, adjunct professor of economics, ISER, University of Alaska Anchorage. Published by University Press of America, 1987, 250 pages. Soft-cover copies \$11.50. Available from ISER.

The ten essays and a technical appendix in this book present some U.S. and Canadian perspectives on development issues facing the arctic and subarctic areas of Alaska and northern Canada. Written by American and Canadian economists, anthropologists, and others, the book examines topics that range from the relationships between Native peoples and economic development to the potential for more energy and other kinds of development on the northern frontier. Overall, the book gives readers insight into the complexity and diversity of problems accompanying economic development in Alaska and northern Canada.

Native Claims and Political Development, by Thomas A. Morehouse, professor of political science with ISER, University of Alaska Anchorage. ISER Occasional Paper No. 18, October 1987, 28 pages. Available for \$2.00 from ISER.

This paper discusses six existing and proposed settlements of Native claims in Alaska and northern Canada. The author assesses how such settlements fit into the broader, ongoing process of Native political development; he argues that claims settlements should be seen not as "final" political solutions but rather as important junctures in a continuing process of political development.

Report on Alaska Benefits and Costs of Exporting Alaska North Slope Crude Oil, May 1987. Prepared by ISER for the Finance Committee of the Alaska State Senate by Matthew Berman, Susan Fison, Arlon Tussing, and Samuel VanVactor. Report findings and conclusions available from ISER for \$1.50; technical appendixes available at 10 cents per page.

This report finds that Alaska could reap fiscal and other economic benefits amounting to billions of dollars in the coming years if the federal government agreed to lift the existing ban on the export of crude oil from Alaska's North Slope. It also concludes that such exports would help reduce the United States' balance-of-payments deficit, and that overall the benefits of lifting the ban would far outweigh any potential costs.

"Where Have All The Billions Gone?" *Alaska Review of Social and Economic Conditions, February 1987.* By Linda Leask, editor, ISER; Karen Foster, research associate, ISER; and Lee Gorsuch, director, ISER. 36 pages. Available at no charge from ISER.

This *Review* documents how the State of Alaska spent its billions of dollars in petroleum revenues in the first half of the 1980s. It reports, for instance, how much went into the Permanent Fund; how much was transferred to Alaska's local governments; how much was loaned to individual Alaskans; and how much was spent for capital projects.

Alaska Resources Development, edited by Thomas A. Morehouse, professor of political science with ISER, University of Alaska Anchorage. Published by Westview Press, 1984, 212 pages. Soft-cover copies \$11.00. Available from ISER.

Alaska's renewable and non-renewable resources and their potential for development are the subjects of this book. Six authors—three economists, a political scientist, a geographer, and a biologist—wrote individual chapters. The book cites as the chief determinants of future resource development in Alaska: (1) the costs of producing resources as compared with their market value; (2) the world political climate and the availability of secure supplies of vital resources outside Alaska; and (3) government policy. Of the three, the first is by far the most important.

Alaska's Urban and Rural Governments, by Thomas A. Morehouse, professor of political science at ISER; Gerald A. McBeath, professor of political science at the University of Alaska Fairbanks; and Linda Leask, editor and research associate with ISER. Published by University Press of America, 1984. Soft-cover copies \$11.25. Available from ISER.

This book describes all aspects of Alaska's local governments, including the sharp differences in urban and rural systems; their strengths and weaknesses; the quasi-government organizations that share government power in rural areas; the effects that big state oil revenues had on Alaska's local governments in the early 1980s; and the future of local governments around the state.

Alaska's Small Rural High Schools: Are They Working? by Judith Kleinfeld, professor of educational psychology with the Center for Cross-Cultural Studies, University of Alaska Fairbanks; G. Williamson McDiarmid, former assistant professor of education with the Center for Cross-Cultural Studies; and David Hagstrom, associate professor of education with the College of Human and Rural Development, University of Alaska Fairbanks. Published by ISER, 1985. Soft-cover copies \$5.00. Available from ISER.

Based on a 1985 study, this book reports that some small village high schools in Alaska are—despite popular opinion to the contrary—providing students with quality education. But the book also finds that other small high schools have serious problems. The authors collected information from 162 small rural high schools throughout Alaska and visited dozens of schools. By analyzing test scores and interviewing local teachers, school officials, and others, the authors were able to assess the advantages and disadvantages of small high schools—which are defined as those with fewer than 100 students. The book also provides specific examples of successful and less successful schools.

Alaska's Constitution: A Citizen's Guide, by Gordon S. Harrison, former associate professor of political science with the University of Alaska Fairbanks. Published by ISER, Second Edition, 1986, 134 pages. Soft-cover copies \$2.00. Available from ISER.

Several thousand copies of this guide to Alaska's constitution were distributed before the 1982 general election, when Alaskans voted on whether to call a constitutional convention to consider revisions to the constitution. It is a concise, article-by-article explanation of what Alaska's constitutional provisions mean and how they have been tested since the constitution went into effect in 1959. Alaskans decided against calling a convention in 1982, but the guide was so popular that the author updated it for a second edition in 1986.

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
University of Alaska Anchorage
E. Lee Gorsuch, Director
3211 Providence Drive
Anchorage, Alaska 99508

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Sen. Arliss Sturgulewski
AK State Senate
P.O. Box V
Juneau, AK 99811

SUGGESTED LEGISLATIVE PROGRAM

1. A strong economic stimulation package consisting of the following as possible measures:
 - a. Municipal Assistance in the amount of \$100 million dollars at the rate of \$200.00 per capita to each local government.
 - b. A substantial capital improvement program not including buildings, but including deferred maintenance on buildings, and roads.
 - c. A residential loan modification agreement through AHFC which would enable people to reduce their payments and the extra interest added onto the tail end of the loan.
 - d. Tear down the old sub-standard ASBA buildings and ASBA buy new buildings from AHFC and give it a note until such time as ASBA gets federal money to do it.
 - e. Commercial loan modification agreement at AIDA and the payments reduced and the interest added onto the tail end of the loan.
 - f. A program to buy out some foreclosed mortgages of commercial properties such as Zamarelli's strip malls at 1984 land values, and then boarding up or tearing down the buildings.
 - g. An extra dividend.
 - h. Legislation to authorize Bradley Lake to go forward without APUC's approval.
 - i. Offer up to \$100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.
 - j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.
 - k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.
 - l. Pay off local government bonds.
 - m. A Job Corps Program.
2. A \$100,000,000 Capital Improvement Program for Anchorage, the following projects with a priority as shown:

(See Attachment)

Last item -- 16 million for miscellaneous capital improvements.

Directory of Projects and Proposals with Direct Economic Impact

January 27, 1988

State of Alaska
Office of the Governor
Division of Policy

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

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

OFFICE OF INTERNATIONAL TRADE

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

Trade Leads

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

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Foreign Investments

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

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

International Marketing

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

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: FY 89

Foreign Trade Offices

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

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

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF ADMINISTRATION

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

Risk Management/Assistance to Contractors

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

Cost of Program: within existing budget; not broken out separately

Effects on Alaska Personal Income: increases in-state contract expenditures

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

New Procurement Code

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

Cost of Program: within existing budget not broken out separately

Number of Jobs Created: unknown; will favor Alaskan vendors

Effects on Alaska Personal Income: more contracts and expenditures retained in-state

Geographic Area of Impact: statewide

Commencement and Duration of Effects: 1/1/88 and on

Vacancy-Based Recruitment Program

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

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

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

Cost of Program: within existing budget; not broken out separately

Number of Jobs Created: fills existing State positions statewide, with rural emphasis

Geographic Area of Impact: statewide, with rural emphasis

Commencement and Duration of Economic Effects: ongoing

DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

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

Economic Development and Marketing Program

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

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

Alaska Housing Market Council

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

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

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

"Made In Alaska" Program

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

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

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

Small Business Development Centers

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

Cost of Program: \$200 thousand GF, \$200 thousand federal funding

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
10/1/86 - 9/30/87

Minority Business Development Program

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

Cost of Program: \$75 thousand GF, \$75 thousand federal funding

Number of Jobs Created: 667 fulltime (indirect), based on \$20,000.0 thousand in procurement contracts received by clients

Effects on Alaska Personal Income: \$16 million (indirect) @ 80% of contracts

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
4/1/87 - 3/31/88

Market Access Program (Bonding)

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

Cost of Program: within existing budget; part of market surveillance

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Bank Monitoring Program

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

Cost of Program: \$424.8 thousand

Number of Jobs Created: prevented closure of 3 banks, with total of 434 employees

Effects on Alaska Personal Income: \$18.6 million (compensation for 434 bank employees)

Geographic Area of Impact: statewide, mainly Anchorage

Commencement and Duration of Economic Effects: ongoing

Investments Work-Out Program

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

Cost of Program: \$191.6 thousand

Number of Jobs Created: none, but job loss is prevented

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

Alaska-Hire In Seafood Industry Program

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

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

Cost of Program: \$10 thousand

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:

5/87 - 12/87

Alaska-Hire In Tourism Industry Program

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

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

ARDOR Program (CIP)

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

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

Bradley Lake Hydroelectric Project (CIP)

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

This program requires new legislation (HB 356).

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

APA - Four Dam Pool

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

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

Small-Scale Rural Energy Cost Reduction Program (CIP)

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

Cost of Program: \$3.57 million Power Development Revolving Loan Fund (PDRFL); \$28 million loan and bond funds

Number of Jobs Created: 105 (PDRFL), 325 loan and bond funds

Geographic Area of Impact: statewide, rural

Commencement and Duration of Economic Effects: 18 - 24 months

AIDEA - Red Dog Mine & Port Project

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

Cost of Program: \$150 million (bonding)

Number of Jobs Created: 200 construction, 400 operations

Effects on Alaska Personal Income: est. \$20 million

Geographic Area of Impact: Northwest Arctic Borough

Commencement and Duration of Economic Effects: long-term

AIDEA - New Debt Financing Program

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

Cost of Program: \$25 thousand

Number of Jobs Created: maintain existing jobs

Geographic Area of Impact: Anchorage

Commencement and Duration of Economic Effects:

FY 89 - FY 90

FDIC

Federal Deposit Insurance Corporation

Memorandum to: Laurence D. Schannault
Deputy Regional Director (DOL)
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	 54.2mm 59.2mm	 549	 76.3mm

Laurence D. Schannault
 March 4, 1988
 Page 2

<u>Real Estate Mortgage Loans</u>	<u>ANDN</u>		<u>FID</u>	
<u>A. Real Estate Construction Type</u>	<u>#</u>	<u>DV</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	4	5.1mm
Totals	<u>64</u>	<u>18.4mm</u>	<u>54</u>	<u>28.3mm</u>

<u>B. Covered Transaction-Type</u>				
Condom	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	<u>28</u>	<u>3,193m</u>	<u>0</u>	<u>* 0</u>

* 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	24.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	84.8mm	266	63.2mm
GRAND TOTALS	804	84.8mm	969	167.8mm

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

REAL ESTATE PROPERTIES OWNED
PAGE 2

SUBSIDIARY ACCOUNT

<u>BANK NUMBER:</u> 5915	<u>BANK NUMBER:</u> 2766	
<u>BANK: ALASKA NATIONAL BANK</u>	<u>BANK: FIRST INTERSTATE BANK</u>	TOTAL
<u>COMMERCIAL</u> 2	10	12
(B.V.) (400,000.00)	(22,099,494.62)	(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

ANEN

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	3	205M	15			—	—	—	—	—
Real Estate Related	12	1,084M	21			59	7,672M	244		
Tourism	9	185M	18			16	8,869M	39	185	
Transportation	24	3,794M	205	242		26	1,508M	79		
Fishing	—	—	—			14	1,060M	56		125
Mining	15	1,001M	18			1	811M	8		
Construction	69	3,757M	282	90		61	3,577M	241	151	
Timber	9	271M	60			1	28M	5		
Oil Related	—	—	—			9	3,641M	18	39	219
Communication	—	—	—			4	639M	20	45	
Retail/Services	144	17,886M	450	151	223	179	30,020M	543	516	491
Not Designated	317	26,017M	(Not Available)			233	46,690M	(Not Available)		
Totals	602	54,200M	1,069*	483*	223*	603	104,515M	1,253*	936*	835*

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

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,

A handwritten signature in dark ink, appearing to read 'F. H. Burrow', with a large, sweeping flourish extending to the right.

FRED H. BURROW
President

:khc1/30

Alliance Bank

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

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

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

Background

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

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

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

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

The Proposal

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

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

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



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

Thank you for your invitation to attend last weeks discussion on the Alaskan economy. My understanding is that on Tuesday at 9:00 AM the group will meet again and you would like a brief overview of the current financial situation of the Authority. Additionally, myself and all others in attendance were to give some thought to what was discussed and present any ideas or alternatives that may help the economy in general.

My understanding is that the primary purpose of the group is to brainstorm and prepare ideas that may allow governmental intervention to assist the economy through some difficult times. Many individuals feel that the assets of the Authority could be useful in this effort and that an overview of the financial condition would allow a more reasoned analysis.

Attached as Appendix "A" is the Balance Sheet & Income Statement for the year ending 6/30/87. Following the statements, I have prepared a brief analysis of the composition of the balance sheet with particular emphasis in the asset side in which this group appears to have an interest.

At last weeks meeting, several points were raised that merit response. There seemed to be a general consensus around the table that AIDEA needs to respond more timely to work-out requests submitted by banks and needs to be a bit more liberal in its evaluation of these requests. Insofar as the timeliness is concerned, I agree that there have been times when a response has been slower than necessary. Internal steps have been taken to remedy the problem. On the liberalization side, I also agree that some of the criticism may be justified. It is significant that the Authority considers itself an in-state investor in bank originated loans and not a social service organization. It is also realistic to understand that on a 90/10 participation who really has assumed the risk and accordingly should have a considerable voice in determining the future events of that particular transaction. Nevertheless, steps are being taken to hopefully alleviate, at least to a degree, both of these concerns.

*Chap would have for comparing
is land value - & the other
ways not for differences for
Regan*

On to more important matters and the purpose of the gathering, the economy.

It appears the group was not overly impressed with my rather inarticulate mutterings on supply and demand. The majority of proposals distributed do not address these fundamentals and accordingly will not solve the problem. The proposals all are premised on the assumption of buying time and hopefully things will get better. This analysis ignores the possibility that a structural change has occurred within Alaska and that slow to moderate growth will might be the future, not the double digit growth that we've all grown accustom to.

What is occurring now is percisely free enterprise at its worst. It is eliminating the marginal producer in a very efficient matter. Once equilibrium is reached, the survivors will grow and prosper and those who made miscues or poor investment decisions will be finished. The lesson for the real estate speculator is simple, leverage is two sided.

The problem then is to alter the above relationship, hopefully in a form that recognizes some across the board public benefit, as it appears public funds are to be used. The Chairman has requested that we focus on the supply side and accordingly it appears to the author that to rationally gain access to the "public trough", a program that at least attempts to spread equally the gain and the pain be developed.

Demolish Alternative

- 12/21/87
Chapman
12/21/87*
- I. Any financial institution, political subdivision, credit union, FDIC, may take property from their "OREO" account, sell it to the "Demolish Corp" for its current land value who is then mandated to destroy the improvements upon the land.
 - A. Improvements must have existed upon the property prior to January 1, 1986.
 - B. Improvements must be commensurate in size and character to the real property in question.
 - C. Property must be vacant at time of purchase.
 - II. The "Demolish Corp" is prohibited by statute from selling any real property until _____, which time all proceeds are deposited in the _____ (General Fund?).

Analysis

1. Not feasible, no one will sell for merely land value.
 - A. Perhaps not. Current OREO requires taxes, insurance and maintenance. If the structure is obsolete and the institution has already written off a portion. A sale for land value would stop the bleeding and allow immediate cash into the bank. Most likely the least desirable, must

2. By requiring tenant removal prior to purchase, demand would be created by eliminating supply.
3. Who wins/Who loses??
 - A. Tends to prop up property values if enough properties tendered. All property owners would benefit by the reduction in supply of like properties. (Includes commercial and residential).
 - B. Removes property from the tax rolls but increases values of the remaining property.
 - C. Allows institutions to liquidate, receive cash and go on.
 - D. Penalizes speculation

III. Moratorium on lending for new construction

A moratorium would be placed on AHFC, AIDEA, ASBA, Permanent Fund, etc. on providing funds for permanent financing for any new construction ~~subject to an override by the local governing body within which the project is located.~~ *Ne*

The intent is to curtail new construction except when a local government feels their economy can absorb such new construction. Could put a sunset on it, say for three years, then the restriction falls away unless reinacted.

IV. Public Works - Jobs Bill

*AIDA started a committee
no more explicit funding source
Jensen, Clerk Jensen, Mark Se
Lambert*

**Analysis of Balance Sheet
6/30/87**

INVESTMENTS

Restricted	\$ 55,284,432
Unrestricted	\$223,044,730

The restricted category is comprised of funds that are specifically pledged or obligated for various bond issues. Included in this category are the Capital Reserve funds, Bond Sale funds, Loan Collections, Escrowed Bond Sale, remittances, etc. These funds are held by the various bond trustees.

The unrestricted category are general funds of the Authority that are not specifically pledged to any particular bond issue but which in addition to the loans comprise the bulk of the general assets of the Authority. The majority of these funds are invested in U.S. obligations or agencies or instrumentality of the U.S. in maturities of one year or less.

LOANS

Total	\$329,070,910
Less allowance	<u>10,173,101</u>
NET	\$318,897,809

Composition of loans

Appropriated & Purchased	549	\$ 75,353,222
Federally Guaranteed	63	11,278,600
Bond Sale	<u>396</u>	<u>242,439,088</u>
	1,008	\$329,070,910

95% of total \$ in real estate 50% in Arch

Bond Sale Delinquency as of 10/31/87

<u># loans</u>	<u>Principal</u>	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days +</u>
377	\$229,997,223	(14) 3.05% \$7.0 million	(5) 1.24% \$2.9 million	(69) 22.5% \$51.9 million

Total Delinquent

88 26.8% \$61.8 million

OREO as of 6/30/87

\$8,797,589

*11/30/87
\$10m*

does not get a current appraisal / doc set here to but the books must get an appraisal

Analysis of Balance Sheet
December 21, 1987
Page Two

Liabilities as of 6/30/87

Bonds Payable	\$252,720,225
Average Annual Debt Service	\$33.0 million/per year

Income Statement Notes
6/30/86

	<u>87</u>	<u>86</u>	<u>85</u>
Total Revenues	\$ 48,359,225	\$ 54,959,810	\$ 51,812,352
Total Expense	34,882,482	26,084,609	22,060,125
Total Earnings	13,476,743	28,875,201	29,752,227
R.E. End of Period	\$157,625,213	\$144,148,470	\$115,273,269

G.O. full faith & credit
 22 Bonds issued out. of authority
 vast majority are non-callable until
 1994-97 not allowed to be
 refundable 10 yrs
 10-22 can be called with a pre-pay
 only.

SPECIFIC SUGGESTIONS

- * Change AIDA's 2% statute *agreed - will be added to*
- * AIDA work outs should parallel banks *agreed*
- * Do not fund new building projects into areas of oversupply *not by any means*
- * Repeal law setting delinquency rate
- * Caps for individual banks
- * Consider loan guarantee program through AIDA with loans sold to state (P.F. or other)
- * AHFC & AIDA need more staff
 - AHFC - operations/systems people
 - AIDA - work out specialists
- * AIDA needs to follow example of S.B.A.
- * Export trailers
- * Convert existing space to state uses
- * Condos to UAA dorms, ASHA housing upgrade
- * Change regulations requiring disposal of property within two years.

* *and statute changing law*

develop AH Corporate Proj.

R.W.H.
12/87

will introduce this

home owners assist program

*1/3 new 1/3 new 1/3 condos
3700 owned properties
by AHFC*

AIDA - 22 issues.

-1000 loans

AHFC - 90 Bond issues.

52.000 loans

4 billion in outstanding debt

1 1/2 billion net worth in mortgage loans

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

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

Financial Outreach Services to Encourage Recovery (FOSTER)

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

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

Community Economic Disaster Loan Fund

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

This program will require enabling legislation.

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

Rural Economic Development Initiative (REDI)

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

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

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

Job Training Partnership Act

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

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

Dislocated Workers

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

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

Child Care Programs

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

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

Conservation and Weatherization

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

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

Revenue Sharing

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

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

Municipal Assistance

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

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

Housing Assistance Loan Fund (HALF)

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

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

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

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

DEPARTMENT OF CORRECTIONS

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

Spring Creek Correctional Center

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

Cost of Program: \$12,688,000

Number of Jobs Created: 221 staff by October

Effects on Alaska Personal Income: return of prisoners currently incarcerated Outside increases jobs in-state

Geographic Area of Impact: Seward

Commencement and Duration of Economic Effects:
latter FY 88 and on

DEPARTMENT OF EDUCATION

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

Foundation Funding

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

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

K-12 Support Programs

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

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

School Debt Reimbursement

School Debt Reimbursement continues at 90% of entitlement.

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

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

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

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

Vocational Rehabilitation

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

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

Adult Basic Education (ABE)

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

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

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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

Remote Maintenance Worker Grants Program

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

Cost of Program: \$504 thousand (\$39.2 thousand incremental)

Geographic Area of Impact: West, Northwest, Interior

Commencement and Duration of Economic Effects: FY 89

Dairy Inspections

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

Cost of Program: \$79.6 thousand

Geographic Area of Impact: South Central, Interior

Commencement and Duration of Economic Effects: FY 89

Seafood Inspection

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

Cost of Program: \$1 million

Geographic Area of Impact: Coastal regions

Commencement and Duration of Economic Effects:
FY 89 and on

Environmental Quality Programs

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

Environmental Sanitation

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

Cost of Program: \$875 thousand

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: FY 89

DEPT. OF HEALTH & SOCIAL SERVICES

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

Medicaid Program

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

Cost of Program: \$81,121,700 in FY 88

Number of Jobs Created: est. 900

Effects on Alaska Personal Income: payments for 46,000 clients in FY 87 (average payment of \$7.9 thousand for 65+, for 65+ total of \$363.4 thousand)

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

General Relief Medical Program

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

Cost of Program: \$8.55 million in FY 88

Effects on Alaska Personal Income: increased disposable income for 18,645 clients in FY 87

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

General Relief Assistance Program

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

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

Adult Public Assistance Program

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

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

Longevity Bonus Hold Harmless Program

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

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

Aid To Families With Dependent Children

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

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

Foster Care Program

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

Cost of Program: \$7,368,000 in FY 88

Effects on Alaska Personal Income: 2,800 clients in FY 87

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Grants and Contracts

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

Cost of Program: \$56,191,800 in FY 88

Number of Jobs Created: est. 1,430

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Bethel Youth Facility

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

Cost of Program: \$1,002,500 (operations increment for FY 89)

Effects on Alaska Personal Income: \$1,397,000 (\$821.5 thousand for personal services funding at 1.7 multiplier)

Geographic Area of Impact: Bethel area

Commencement and Duration of Economic Effects:
FY 89+

DEPARTMENT OF LABOR

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

Job Training Partnership Act and Dislocated Worker Programs

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

Number of Jobs Created: 1,306

Effects on Alaska Personal Income: increase income to participants and employers

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Employment Security Programs

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

Cost of Programs: \$1,902,800

Number of Jobs Created: 7,282

Effects on Alaska Personal Income: \$17.9 thousand

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Alaska Hire Preference Program(s)

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

Cost of Programs: \$536.2 thousand

Number of Jobs Created: 9,114 in seafood industry

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

Labor Market Information Program

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

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

Unemployment Insurance

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

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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

Army National Guard Aviation Battalion

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

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

Army National Guard Support Battalion

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

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

Air National Guard Search and Rescue Squadron

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

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

Air National Guard Refueling Squadron

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

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

Army Guard Facilities Maintenance

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

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

DEPARTMENT OF NATURAL RESOURCES

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

TAGS Gas Pipeline Monitoring

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

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

Timber Sale -- Susitna Valley, Tyonek

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

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

Oil & Gas Leasing

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

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

Coal Sale -- Matanuska Valley

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

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

Coal Land Rehabilitation

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

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

Eagle River-Chugach State Park Ski Resort

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

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

Hatcher Pass Ski Resort

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

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

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

Alaska State Parks Program Receipts

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

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

Alaska Grown Program

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

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

Agricultural Management Applied Research Grant

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

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

Mt. McKinley Meats and Matanuska Maid Dairy

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

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

DEPARTMENT OF REVENUE

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

Permanent Fund Program

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

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

AHFC Loan Administration

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

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

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

Shared Taxes

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

ranging from reducing local taxes to providing general government services.

Cost of Program: \$10,786,200

Effects on Alaska Personal Income: reduces local taxes, helps local communities provide basic services

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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

Alaska - Specific Destination Program

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

Cost of Program: \$200 thousand (IARF), \$100 thousand private sector

Impact on Alaska Personal Income: Attracting more Japanese tourists to Alaska will have a very positive impact on income. The average Japanese visitor will spend \$2,000.

Geographic Area of Impact: mainly Anchorage, Fairbanks, Juneau, and Kenai

Commencement and Duration of Economic Effects: Spring 1988 - FY 89

Promotion of Alaska for International/National Parcel Delivery Operations

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

Cost of Program: \$12 - \$15 thousand for marketing AIDEA to supply financing for construction

Number of Jobs Created: 20 - 30 initially; 200 - 300 over 3 year period

Geographic Area of Impact: Anchorage, Fairbanks

Commencement and Duration of Economic Effects: spring 1988 - FY 89

Elderhostel Promotion

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

Cost of Program: \$35 thousand (est. revenue: \$130 thousand)

Geographic Area of Impact: mainly Southeast Alaska

Commencement and Duration of Economic Effects: ongoing

Promotion of Columbia Glacier

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

Cost of Program: \$5 thousand (est. revenue: \$10 thousand)

Geographic Area of Impact: Anchorage area

Commencement and Duration of Economic Effects: Spring 1988 - early FY 89

Promotion of Prince William Sound

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

Cost of Program: \$3 thousand (est. revenue: \$1 thousand)

Geographic Area of Impact: Prince William Sound

Commencement and Duration of Economic Effects: Starting 1/88

Travel Agents Luncheon Promotion

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

Cost of Program: \$18 thousand (est. revenue: \$30 thousand)

Commencement and Duration of Economic Effects: Ongoing

Travel Agents Familiarization Program

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

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

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

Travel Shows

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

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

UNIVERSITY OF ALASKA

**3890 University Lake Drive
Anchorage, AK 99508
786-4620**

Alaska Center for International Business

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

Cost of Program: \$2.5 million GF in FY 88

Geographic Area of Impact: mainly Anchorage

Commencement and Duration of Economic Effects: FY 88
and on

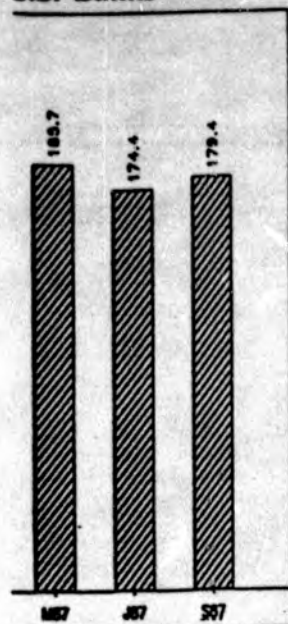
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Bank Quarterly



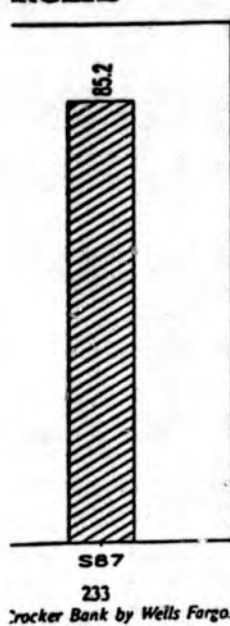
September 1987 Ratings

CAPITAL U.S. Banks



ion or 3% in the third quarter

RGERS*



rocker Bank by Wells Fargo

TOTAL LOAN GROWTH December 31, 1986 to September 30, 1987



Fastest Loan Growth (Percent)

Delaware	22.00
New Hampshire	17.55
Maine	15.02
Maryland	15.86
Connecticut	11.00
New Jersey	10.76
Virginia	10.59
South Carolina	9.71
Florida	9.68
Vermont	9.08

Slowest Loan Growth (Percent)

Wyoming	-11.18
Oklahoma	-10.20
Alaska	-9.25
Texas	-8.58
Montana	-5.48
California	-3.72
Colorado	-3.27
Louisiana	-1.67
Minnesota	-0.84
Idaho	-0.58

TOTAL LOANS September 30, 1987 (\$ Billions)



Largest Loan States (\$ Billions)

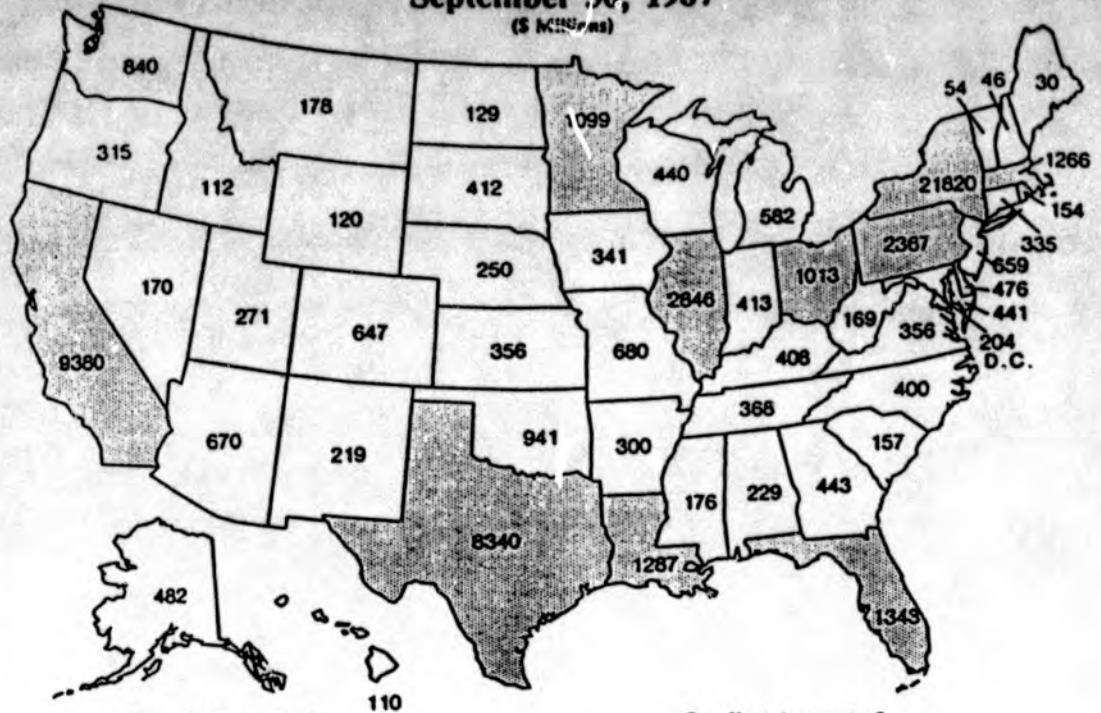
New York	390.8
California	194.3
Texas	109.7
Illinois	100.9
Pennsylvania	89.5
Florida	66.3
Massachusetts	59.2
Ohio	58.8
New Jersey	48.9
Michigan	45.9

State and Regional Trends

NONPERFORMING BANK LOANS

September 30, 1987

(\$ Millions)



Largest Amount of Nonperforming Loans

New York	21820
California	9380
Texas	8340
Illinois	2846
Pennsylvania	2367
Florida	1343
Louisiana	1287
Massachusetts	1266
Minnesota	1099
Ohio	1013

Smallest Amount of Nonperforming Loans

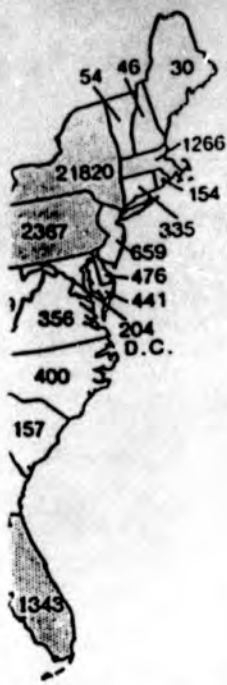
Maine	30
New Hampshire	46
Vermont	54
Hawaii	110
Idaho	112
Wyoming	120
North Dakota	129
Rhode Island	154
South Carolina	157
West Virginia	169

Largest Dollar Increase in Nonperforming Loans

	Sept. 1987	Dec. 1986	\$ Change	% Change
New York	21820	12044	9776	81.2
California	9380	7546	1834	24.3
Texas	8340	6553	1787	27.3
Pennsylvania	2367	1659	708	42.7
Illinois	2846	2391	455	19.0
Massachusetts	1266	880	386	43.9
Florida	1343	1041	302	29.0
Arizona	670	489	181	37.0
Alaska	482	328	154	47.0
Maryland	441	295	146	49.5

Largest Dollar Decrease in Nonperforming Loans

	Sept. 1987	Dec. 1986	\$ Change	% Change
Oklahoma	941	1090	-149	-13.7
Iowa	341	440	-99	-22.5
South Dakota	412	480	-68	-14.2
Wyoming	120	166	-46	-27.7
Colorado	647	686	-39	-5.7
Montana	178	208	-30	-14.4
Nebraska	250	277	-27	-9.7
Wisconsin	440	466	-26	-5.6
Kansas	356	379	-23	-6.1
North Dakota	129	144	-15	-10.4



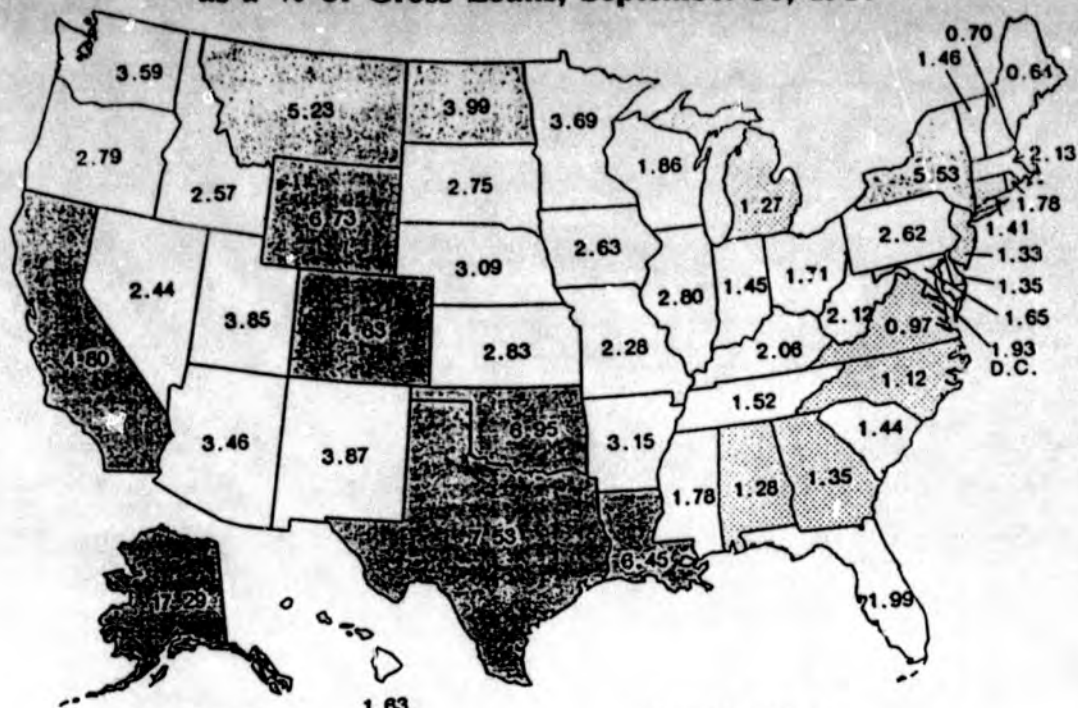
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30
46
54
110
112
120
129
154
157
169

est Dollar Decrease in
onperforming Loans

Sept.	Dec.	\$	%
1987	1986	Change	Change
141	1090	-149	-13.7
341	440	-99	-22.5
412	480	-68	-14.2
120	166	-46	-27.7
547	686	-39	-5.7
178	208	-30	-14.4
250	277	-27	-9.7
140	466	-26	-5.6
356	379	-23	-6.1
129	144	-15	-10.4

NONPERFORMING LOANS as a % of Gross Loans, September 30, 1987



Highest Percent of
Nonperforming Loans

- Alaska	17.29
Texas	7.53
Oklahoma	6.95
Wyoming	6.73
Louisiana	6.45
New York	5.53
Montana	5.23
California	4.80
Colorado	4.63
North Dakota	3.99

Lowest Percent of
Nonperforming Loans

Maine	0.64
New Hampshire	0.70
Virginia	0.97
North Carolina	1.12
Michigan	1.27
Alabama	1.28
New Jersey	1.33
Delaware	1.35
Georgia	1.35
Connecticut	1.41

Largest Increase in Nonperforming Loans

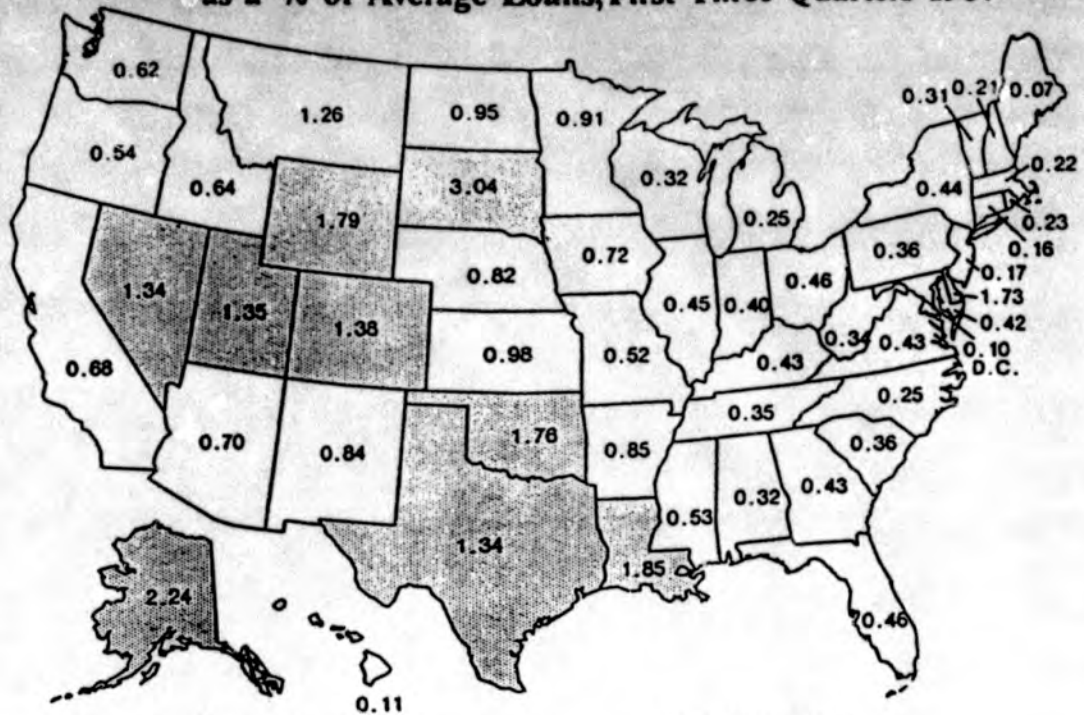
	Sept.	Dec.	Change
	1987	1986	
- Alaska	17.29	10.65	6.64
New York	5.53	3.07	2.46
Texas	7.53	5.41	2.12
California	4.80	3.72	1.08
D.C.	1.93	1.01	0.92
Arizona	3.46	2.57	0.89
Pennsylvania	2.62	1.87	0.75
Massachusetts	2.13	1.56	0.57
Utah	3.85	3.30	0.55
Louisiana	6.45	5.95	0.50

Largest Decrease in Nonperforming Loans

	Sept.	Dec.	Change
	1987	1986	
Wyoming	6.73	8.25	-1.52
Iowa	2.63	3.44	-0.81
South Dakota	2.75	3.31	-0.56
Montana	5.23	5.77	-0.54
North Dakota	3.99	4.44	-0.45
Nebraska	3.09	3.45	-0.36
Oklahoma	6.95	7.23	-0.28
Hawaii	1.63	1.88	-0.25
Vermont	1.46	1.66	-0.20
Kansas	2.83	3.02	-0.19

State and Regional Trends

NET CHARGE-OFFS as a % of Average Loans, First Three Quarters 1987



Highest Percent of Net Charge-offs

South Dakota	3.04
Alaska	2.24
Louisiana	1.85
Wyoming	1.79
Oklahoma	1.76
Delaware	1.73
Colorado	1.38
Utah	1.35
Texas	1.34
Nevada	1.34

Lowest Percent of Net Charge-offs

Maine	0.07
D.C.	0.10
Hawaii	0.11
Connecticut	0.16
New Jersey	0.17
New Hampshire	0.21
Massachusetts	0.22
Rhode Island	0.23
North Carolina	0.25
Michigan	0.25

Largest Increase in Net Charge-offs

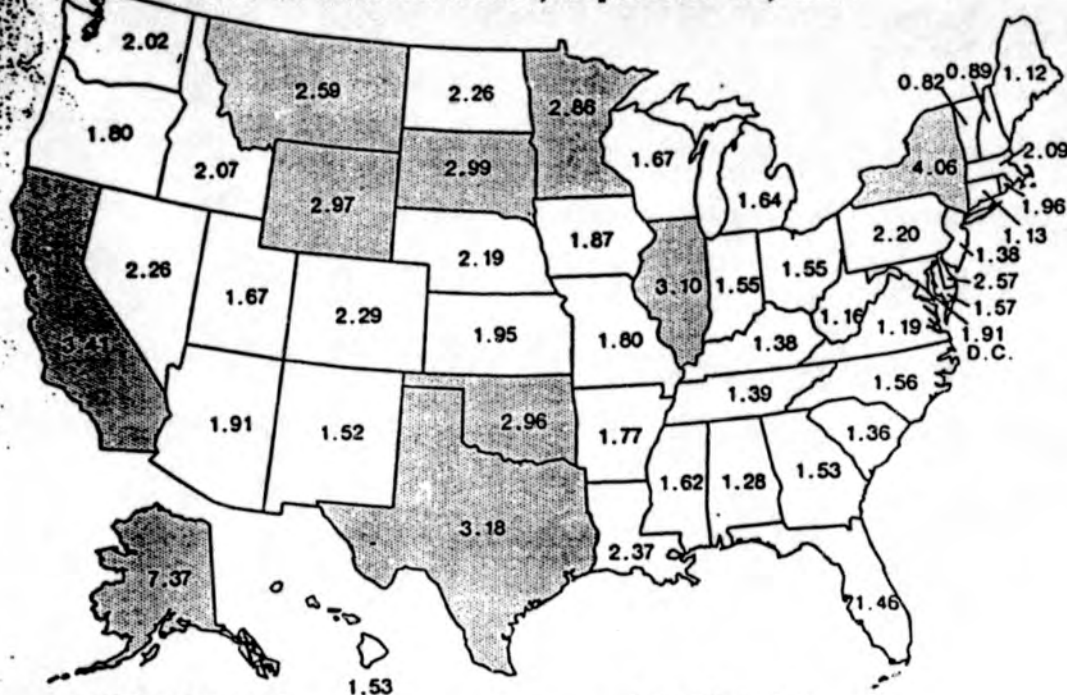
	Sept. 1987	Sept. 1986	Change
Alaska	2.24	0.92	1.32
Utah	1.35	0.84	0.51
Louisiana	1.85	1.34	0.51
Nevada	1.34	0.97	0.37
Delaware	1.73	1.36	0.37
Arizona	0.70	0.52	0.18
Vermont	0.31	0.19	0.12
New Hampshire	0.21	0.11	0.10
Virginia	0.43	0.33	0.10
Texas	1.34	1.25	0.09

Largest Decrease in Net Charge-offs

	Sept. 1987	Sept. 1986	Change
Iowa	0.72	1.80	-1.08
Nebraska	0.82	1.48	-0.66
Minnesota	0.91	1.41	-0.50
South Dakota	3.04	3.52	-0.48
North Dakota	0.95	1.35	-0.40
Montana	1.26	1.65	-0.39
Idaho	0.64	0.99	-0.35
Oklahoma	1.76	2.11	-0.35
Kansas	0.98	1.26	-0.28
D.C.	0.10	0.34	-0.24

State and Regional Trends

RESERVE FOR LOAN LOSSES
as a % of Total Loans, September 30, 1987



Highest Percent of
Reserve for Loan Losses

Alaska	7.37
New York	4.06
California	3.41
Texas	3.18
Illinois	3.10
South Dakota	2.99
Wyoming	2.97
Oklahoma	2.96
Minnesota	2.86
Montana	2.59

Lowest Percent of
Reserve for Loan Losses

Vermont	0.82
New Hampshire	0.89
Maine	1.12
Connecticut	1.13
West Virginia	1.16
Virginia	1.19
Alabama	1.28
South Carolina	1.36
New Jersey	1.38
Kentucky	1.38

Largest Increase in
Reserve for Loan Losses

	Sept. 1987	Dec. 1986	Change
Alaska	7.37	2.56	4.81
New York	4.06	1.55	2.51
California	3.41	1.99	1.42
Illinois	3.10	1.75	1.35
Minnesota	2.86	1.91	0.95
Texas	3.18	2.38	0.80
Massachusetts	2.09	1.30	0.79
Pennsylvania	2.20	1.43	0.77
Arizona	1.91	1.25	0.66
Oregon	1.80	1.17	0.63

Largest Decrease in
Reserve for Loan Losses

	Sept. 1987	Dec. 1986	Change
South Dakota	2.99	3.20	-0.21
Idaho	2.07	2.14	-0.07
Maryland	1.57	1.63	-0.06
South Carolina	1.36	1.36	0.00
West Virginia	1.16	1.16	0.00
Maine	1.12	1.12	0.00

State and Regional Trends

FAILED COMMERCIAL BANKS* First Three Quarters 1987 (\$ Thousands)

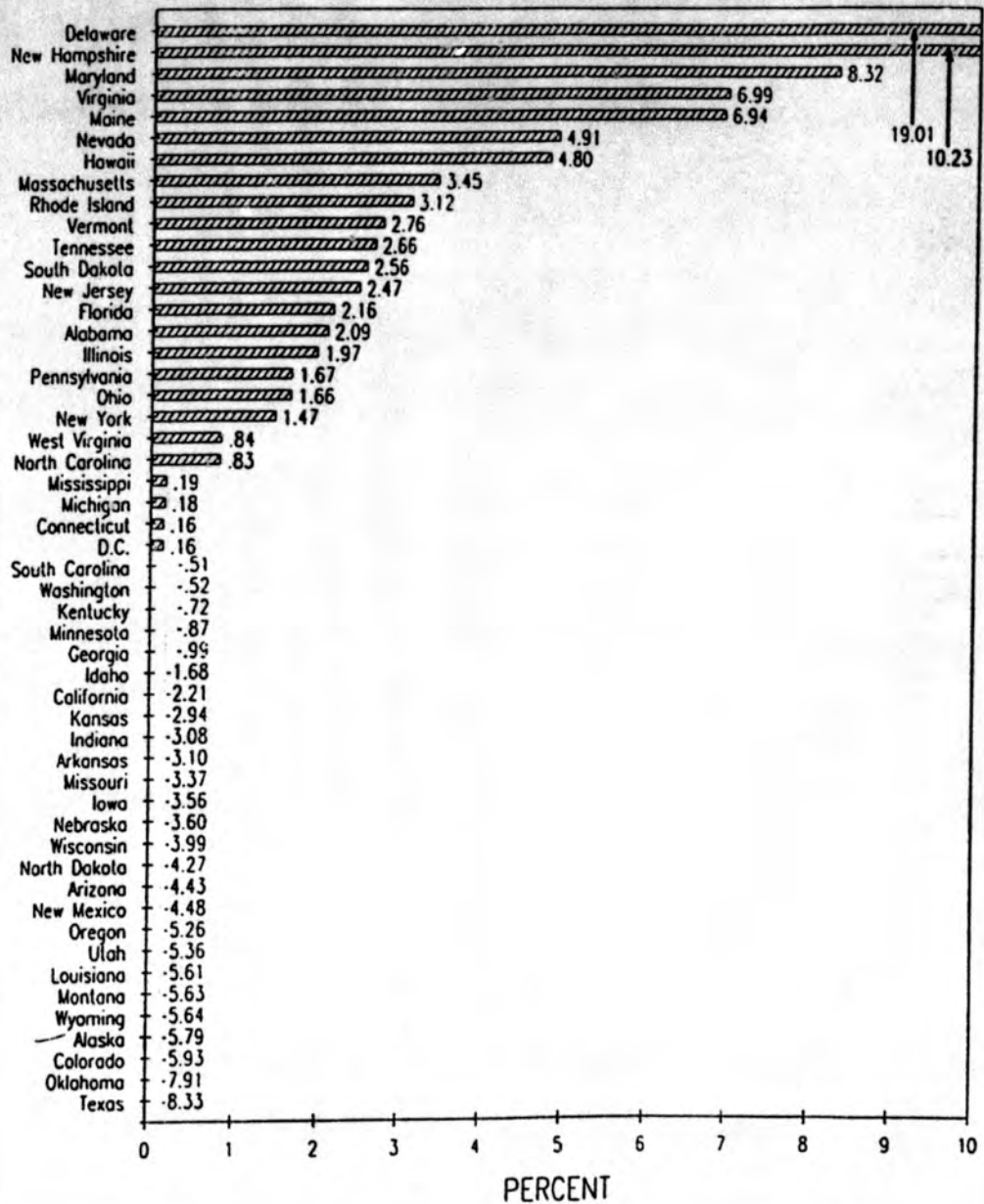


West			Southeast			Northeast		
	Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks
California	231,300	7	Florida	249,000	3	New York	170,000	1
Colorado	118,500	9	Alabama	23,400	2	Massachusetts	47,200	1
Wyoming	105,000	2	Mississippi	13,700	1	Connecticut	0	0
Utah	52,200	3	D.C.	0	0	Maine	0	0
Montana	35,900	1	Delaware	0	0	New Hampshire	0	0
Alaska	0	0	Georgia	0	0	New Jersey	0	0
Arizona	0	0	Kentucky	0	0	Pennsylvania	0	0
Hawaii	0	0	Maryland	0	0	Rhode Island	0	0
Idaho	0	0	North Carolina	0	0	Vermont	0	0
Nevada	0	0	South Carolina	0	0	Total	217,200	2
Oregon	0	0	Tennessee	0	0			
Washington	0	0	Virginia	0	0			
Total	542,900	24	Total	286,100	6			

North Central			Southwest			Midwest		
	Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks
Kansas	162,200	6	Texas	1,198,700	39	Indiana	75,800	3
Minnesota	97,700	8	Oklahoma	726,400	27	Illinois	31,600	2
Iowa	75,900	5	Louisiana	154,700	7	Ohio	7,300	1
Missouri	51,000	4	Arkansas	0	0	Michigan	0	0
South Dakota	19,700	1	New Mexico	0	0	West Virginia	0	0
North Dakota	11,600	1	Total	2,079,800	73	Wisconsin	0	0
Nebraska	0	0				Total	114,700	6
Total	418,100	25						

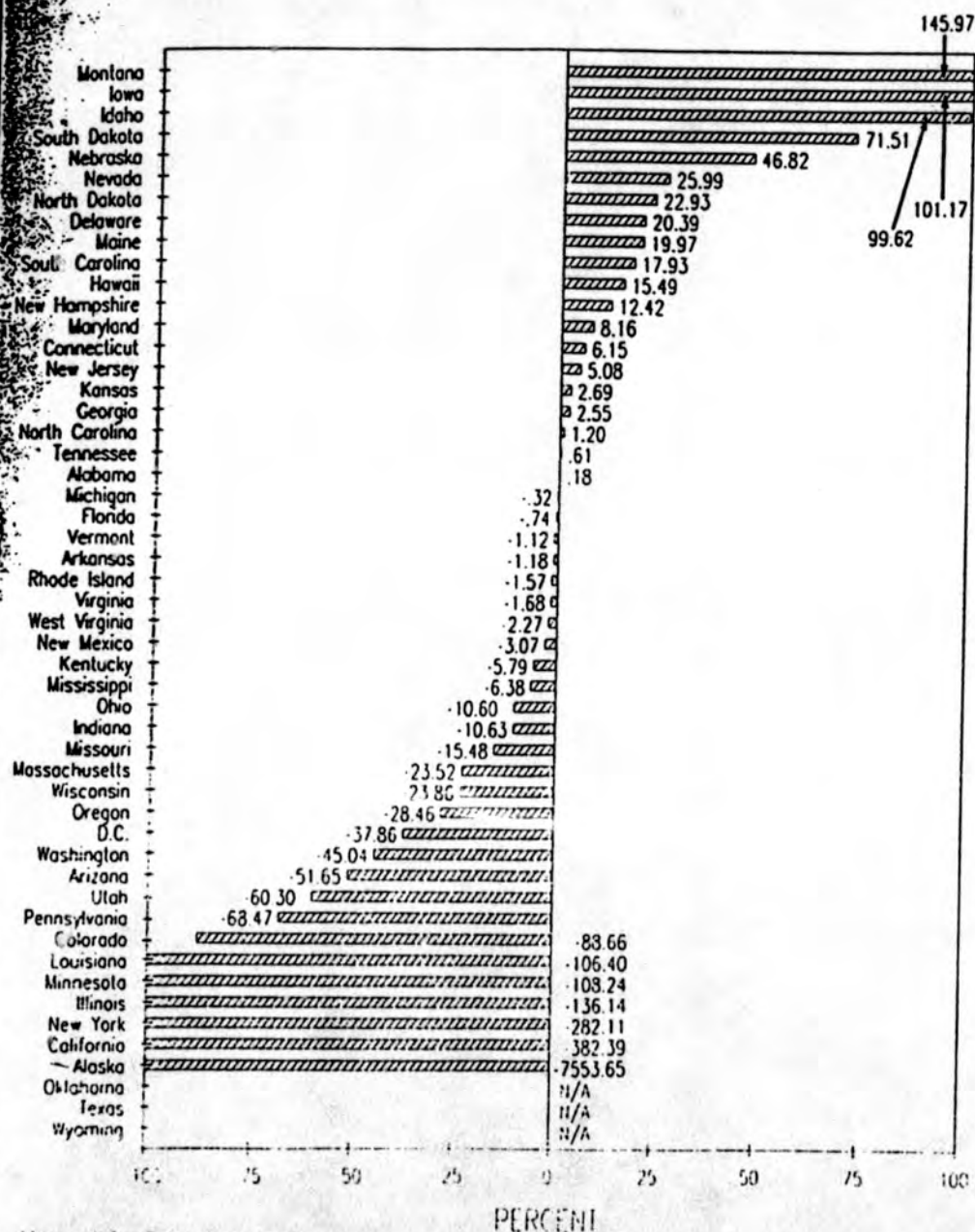
* Does not include assistance transactions

BANK ASSET GROWTH DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

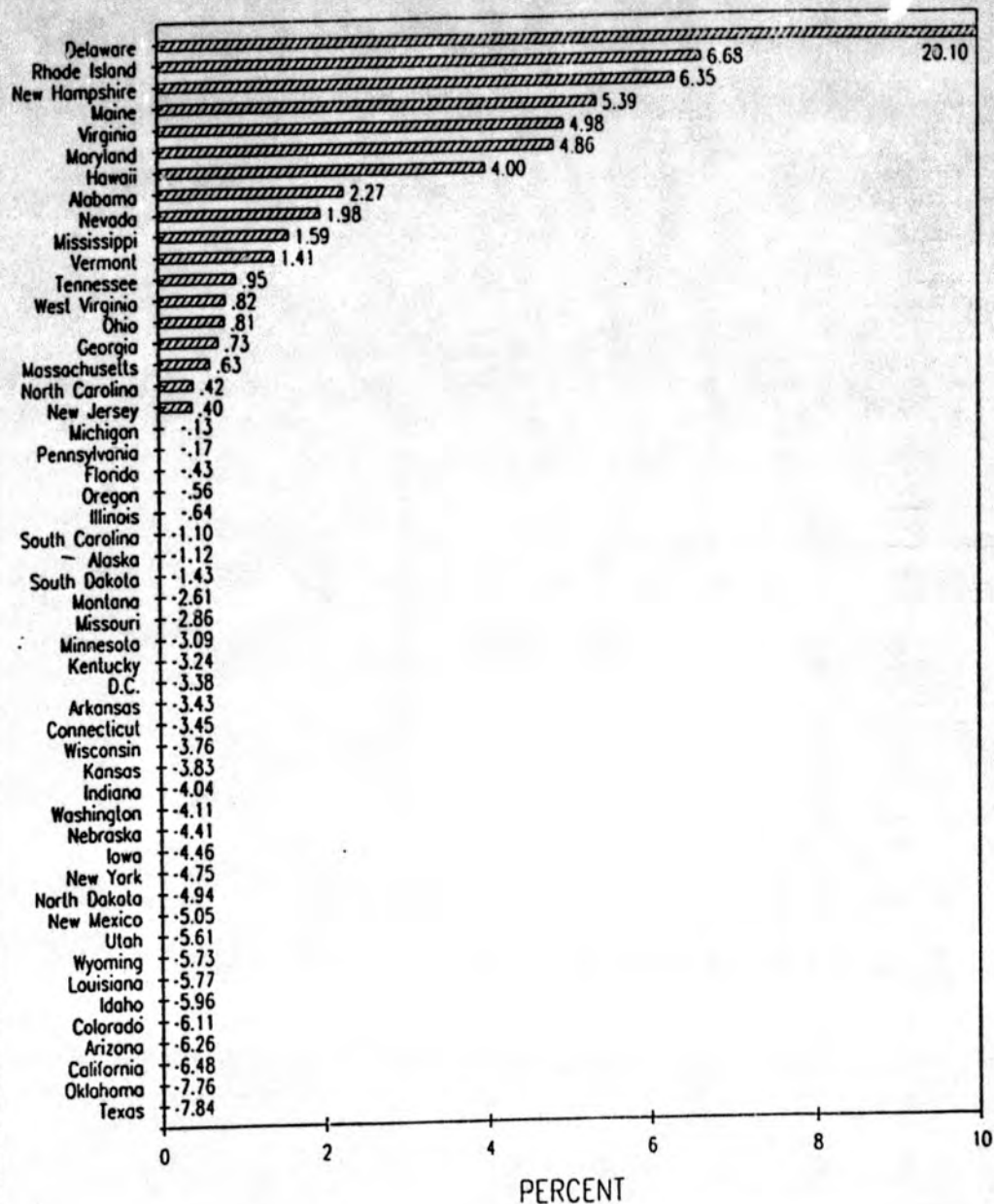
BANK NET INCOME GROWTH First Three Quarters 1987 vs. First Three Quarters 1986



* Income before Extraordinary Items

State and Regional Trends

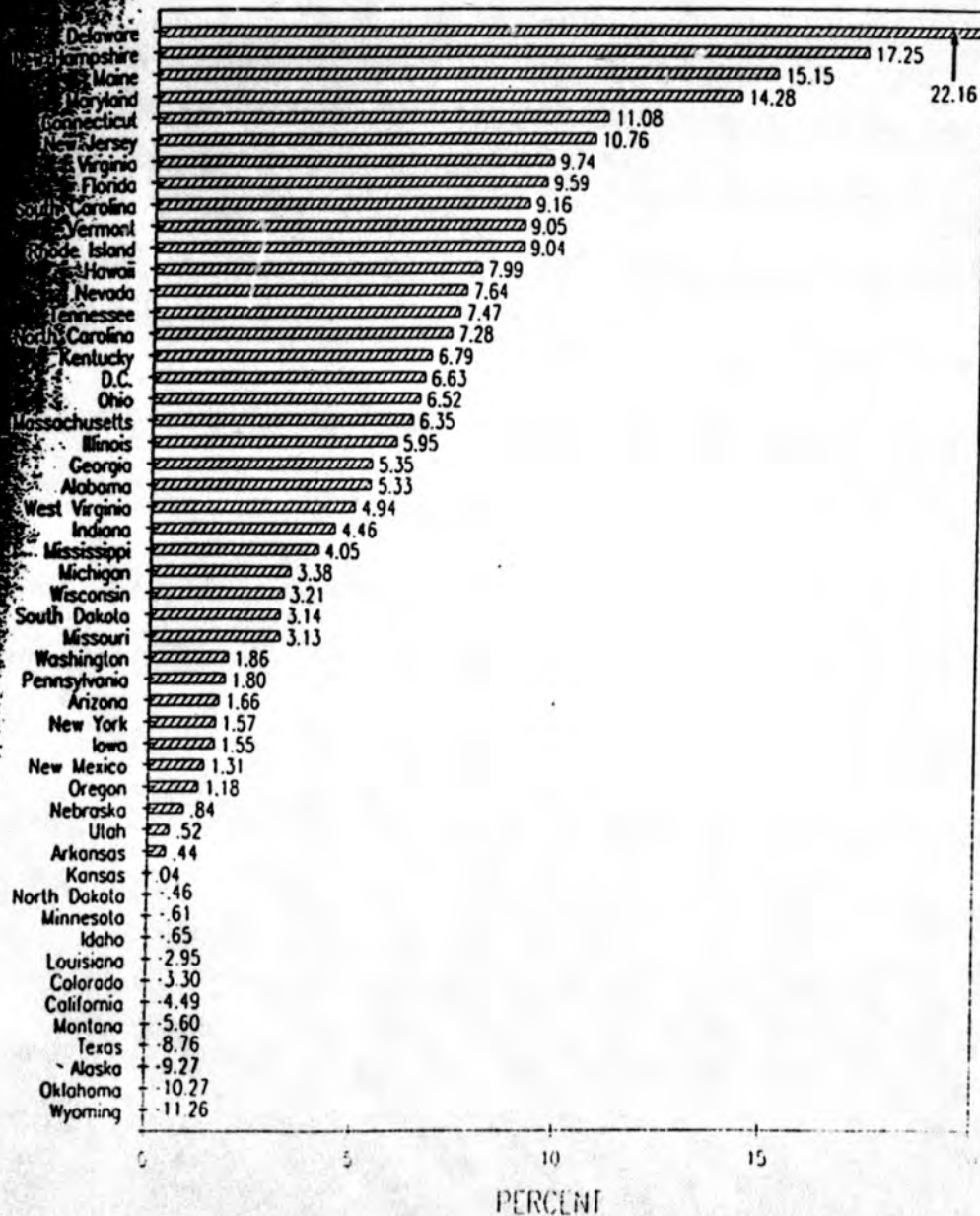
BANK DOMESTIC DEPOSIT GROWTH DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

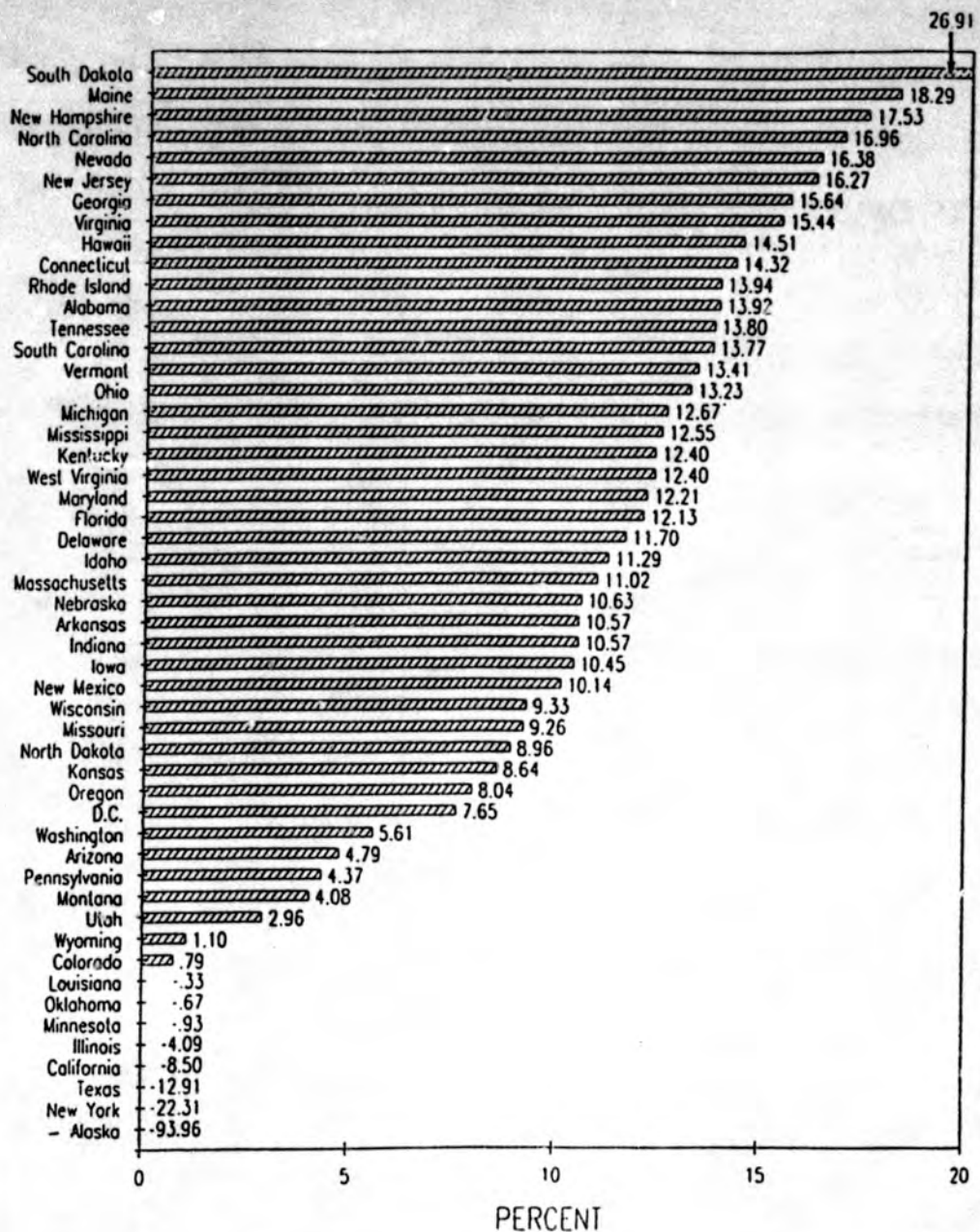
BANK DOMESTIC LOAN GROWTH

DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

RETURN ON EQUITY FIRST THREE QUARTERS 1987



A TASK FORCE REPORT:
STABILIZATION OF THE HOUSING MARKET

DRAFT SUMMARY

March 3, 1988

Alaska Housing Market Council

The housing market in Alaska first showed signs of excess supply as early as the 1983 construction season when housing starts set an all time high. Construction in the low end of the market, for condominiums and zero lot lines (\$60K - \$90K), lead the market saturation.

There was little control exercised by lenders and investors on the type, number, or quality of units built. The inability, or unwillingness, to measure market demand disguised potential saturation, while a generally buoyant economy concealed the depth of the pending problem.

Home buyers, encouraged by annual appreciation on residential real estate in the 12-18% range, began to view homeownership as a high yield investment instead of a method for providing shelter. Alaska's traditionally high wages and salaries gave comfort to both buyers and lenders that homeowners would always be able to make their monthly mortgage payments.

These attitudes and practices collided with the dramatic drop in the per barrel price of oil in early 1986. The immediate loss of one billion dollars by the State resulted in a dramatic decline in publicly funded construction, local government revenue sharing, mortgage loans, and a host of other mechanisms which had

driven the Alaska economy for five years of record growth. Alaska entered an economic recession.

The housing market showed immediate signs of the recession. Delinquency rates mounted as homeowners struggled to keep up mortgage payments based on previous earnings. Lenders and investors tightened up the money supply and began to apply the most conservative interpretation to regulatory controls. The subsequent decline in population, combined with tighter lending policies, contributed to the reduction in housing demand. The level of prices fell as the surplus developed. Some homeowners saw the value of their homes drop by as much as 40% in just two years.

It is this series of events which lead to the formation of the Alaska Housing Market Council by Governor Steve Cowper. In an effort to provide the public sector, private sector, and policy makers with direction in bring positive change to the housing market, three regional task force groups were formed. These groups, representing Interior, Southeast, and Southcentral Alaska, each consist of knowledgeable individuals familiar with the housing market.

It is important to understand the interdependency of public and private interests in the housing market to be able to assimilate the recommendations contained in this report. While some of the

suggested actions may stand alone, these recommendations are presented as a package designed to achieve market stability.

As there is no one cause for the current market condition, there is no one solution. All sectors of the Alaskan economy must share the responsibility for returning the housing market to a stable condition.

In mid-February, several members from each housing task force met in Juneau to integrate the recommendations from each region. The following are the recommendations from the Combined Housing Task Force. The suggested actions have been group into several categories:

- A. Reducing the housing supply.
- B. Increase the demand for housing.
- C. Decrease delinquencies and foreclosures.
- D. Education of market players.

A. REDUCE HOUSING SUPPLY.

1. Make available institutionally owned housing for public interest use, such as student, elderly, low-income or transitional housing.
2. Develop and initiate plans for the demolition of institutionally owned properties (REOs) which are unsafe and/or substandards in quality.

3. Develop a mechanism, where appropriate, to hold property off the market and reduce holding costs through the consolidation of properties into a consortia such as a "bridge bank" or Real Estate Investment Trust (REIT).
4. Any cooperative program that is developed for the disposal and utilization of REOs should provide a balanced approach in regards to both the rental and the sales market.

B. INCREASE DEMAND FOR HOUSING.

1. All mortgage loan agencies, particularly Alaska Housing Finance Corporation (AHFC), should provide clear and consistent loan guidelines which are no more restrictive than those of the national, secondary investors and/or insurers.
2. All mortgage loan agencies, particularly AHFC, take whatever action is necessary to provide for a more timely response to all routine business matters.

3. Lenders/investors should remove restrictions to the straight assumption regulations which require down payments from otherwise qualified borrowers.
4. Increase the number of loans an individual can receive from AHFC for a three year trial period.
5. Investors should relax current owner-occupancy ratios for condominium mortgage loans.
6. Trades of property should be utilized wherever feasible.
7. The entry of new lenders, investors and mortgage insurers should be encouraged in order to increase financing options.
8. Delinquency rate ceilings should be increased for loans through the Alaska Industrial Development Authority (AIDEA), the Public Employees Retirement System (PERS), and the Teacher Employees Retirement Systems (TERS).

C. DECREASE DELINQUENCIES AND FORECLOSURES.

1. Investors should provide more flexibility in, and the increased use of, modification, refinance, or forbearance plans.
2. Investors should be required to allow delinquent borrowers an opportunity to apply for a modification, refinance, or forbearance plan prior to any initiation of foreclosure proceedings, provided that the borrower has not abandoned his/her property.

In the case of condominium owners, the investor should include delinquent association fees in any modification, refinance, or forbearance plan.

3. Seller/servicers should provide trained, consistent, and centralized staffing to assist borrowers in danger of default or delinquency. Said staff must be located within the state of

Alaska.

All investors, including those out of state,
should be encouraged to set clear guidelines

regarding availability of personal contact for
servicing agreements and enforce those guidelines.

4. The State of Alaska should expand the existing Mortgage and Information Referral Hotline, operated by the Alaska Housing Market Council (AHMC), outside of the Anchorage area - particularly to Juneau and Fairbanks.
5. Investors should encourage the development of statewide mortgage counseling programs and promote early referrals for borrower counseling.
6. The maintenance of abandoned and institutionally owned homes should be encouraged.
7. Local and state government should mitigate the impact of housing abandonments through community education and "neighborhood watch" type programs.

D. EDUCATION OF MARKET PLAYERS.

1. The Alaska Housing Market Council (AHMC) should continue to provide information and education on housing and mortgage loan issues to the public and to state decision makers.
2. The State of Alaska should provide complete and accurate information on the status of the state housing market through regular compilation and publication of relevant data.
3. Lenders, investors and the State of Alaska should educate the public on the short and long-term effects of homeownership, particularly in regards to housing as a necessity as opposed to it being an investment.

NEW MATERIAL

3/16/88

Alaska Housing and Recession.

Minutes 3/7/88.

NBA letter re: SB471 fm Sieberts.

Tony Smith memo 3/7/88 re: evaluation of economic recovery proposals.

House resolution on Willow Park demolition.

Committee endorsement memo to Rep. Gruenberg.

Hallwood financial performance report.

Ak Housing Market Council report on market stabilization.

Pat Stewart testimony on AHFC mobile homes 3/15/88.

SB 392, AIDA, new version.

SB 484, Restructuring of Ag debt.

ENDORSED SB 471, Redraft and backup.

Sen. Faiks memo on evaluation of economic recovery proposals.

Residential Real Estate Resolution (draft).

AIDA equity participation.

Lending institution equity participation.

IRS negative equity resolution.

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.

MEMORANDUM

State of Alaska

DEPARTMENT OF LAW

RECEIVED
DEC 09 1987

TO: Mark Weaver
Director
Division of Agriculture

DATE: December 7, 1987

FILE NO: 661-87-0376

TELEPHONE NO: 276-3550

SUBJECT: ARLF Board Guidelines

RECEIVED
DEC 09 1987

THRU:

FROM:

Joan Travostino
Assistant Attorney General
Commercial Section-Anchorage

You have inquired whether ARLF can institute debt restructuring as contained in ARLF Board Guidelines for Restructuring, June 25, 1987, without revision of AS 3.10.

Specifically, you inquire whether ARLF has the authority to expend funds to maintain assets and investment which have been acquired through loan servicing, to expend funds for other loan servicing expense, and to change the terms and conditions of current loans. Changing the terms and conditions of current loans would involve an exchange of assets in return for forgiveness of accrued interest and penalties, obtaining additional collateral, setting aside a portion of the loan to accrue no interest for a certain time, and consolidating different types of loans into one repayment schedule. In addition, you inquire whether ARLF may suspend the requirement for repayment of clearing loans, provided the land to which the clearing loan attaches is used only for agricultural purposes.

You indicate a number of reasons for the June 25, 1987 guidelines including:

1. an average delinquency rate as of December 31, 1986 of 58 percent;
2. an average delinquency rate as of December 31, 1986 of 75 percent if current loan payment moratoriums did not exist;
3. high debt loads of ARLF borrowers, in many cases debt/asset ratios exceeding 75%; and
4. depressed agricultural economics in Alaska and in the nation.

The types of questions you raise fall into the category of loan servicing, and are commonly understood in the banking industry as loan servicing functions, except for the treatment of clearing loans. A review of the federal regulations covering the Farmer's Home Administration (hereafter FmHA) and the Farm Credit System confirm this. Chapter XVIII of 7 C.F.R. covers the Farmer's Home Administration. Part 1951 covers loan servicing. 7 C.F.R. 1951.25 covers servicing actions "such as consolidation, rescheduling, reamortization or deferral . . ." for loans. 7 C.F.R. 1951.33 covers consolidation and rescheduling for "existing loans." Rescheduling is defined as "rewriting rates and/or terms". 7 C.F.R. 1951.40 covers reamortization, which is defined as rearranging "the installments of a loan which may include changing the interest rate and terms of the loan." 7 C.F.R. § 1951.41 covers set asides, which is postponing a portion of principal repayment for a number of years at zero percent rate of interest. 7 C.F.R. 1951.44 covers payment deferrals. There is an understanding by the FmHA that consolidation, rescheduling, reamortization, set asides, and deferrals are loan servicing functions.

Subpart N of Chapter VI of Title 12 covers Loan Servicing Requirements for the Farm Credit Administration. Subpart N, beginning with 12 C.F.R. § 614.4510 considers extensions, deferments, reamortization, and forbearance as loan servicing functions.

The FmHA also considers expending funds for collection, litigation, taxes, appraisals, and similar expenses as part of loan servicing. The payment of delinquent taxes is covered by 7 C.F.R. § 1863. 7 C.F.R. § 1872 covers servicing for real estate loans. Section 1872.4 covers the cost of appraisals when needed to make servicing decisions. Section 1872.2 covers the ability of the FmHA to manage, care for, and maintain real estate which is security for FmHA loans. A review of the Farm Home Administration and the Farm Credit Administration indicate that expending funds to collect loans, locate and gather collateral, keep assets in good working order, and operate businesses (if necessary to preserve asset valued) are considered part of the loan servicing function.

ARLF has implied powers from AS 3.10 to perform loan servicing functions.

The next question is whether ARLF has authority to use the June 25 loan servicing options. Generally, state agencies have the authority to perform those functions that are necessary and helpful to carrying out specific legislative program, even

though the legislation may not specifically provide specific authority for these functions. Dickey v. Raisin Production Zone, 151 P.2d 505, 513 (Cal. 1944). Crawford v. Imperial Irrigation Dist., 253 P. 726, (Cal. 1927); Island-Gentry Joint Venture v. State, 554 P.2d 761, 765 (Hawaii 1976); State v. Fin & Feather Club, 316 A.2d 351, 355 (Me. 1974); Adams County Golf, Inc. v. Colorado Dept. of Rev., 610 P.2d 97,99 (Colo. 1980).

AS 3.10.010 states that it is the

policy of this chapter to promote the more rapid development of agriculture as an industry throughout the state by means of long-term low-interest loans.

AS 03.10.020 provides three methods for carrying out the policy in AS 3.10.010. The methods are to make loans, establish amortization plans, and enter into agreements with private lenders, state agencies, and federal agencies.

AS 3.10 sets out some terms and conditions for the initial loan transaction, for example, farm development loans cannot exceed 30 years and have specific interest rates. AS 3.10.030(a)(1), (4). AS 3.10 covers no form of loan servicing, except for a reference to a three-year extension of a short term loan. AS 3.10.030(c). The ability to perform loan servicing functions is essential to a loan program, because loan servicing provides modifications to improve the potential for loan repayment. Under some circumstances, changing loan terms and conditions allow the lender to obtain a greater income stream than selling the collateral after enforcing loan terms as they were written originally. In addition, loan servicing allows the lender to realize the full value of collateral through programs for upkeep and maintenance of assets.

For example, the loan servicing program contained in the ARLF Board Guidelines allows a portion of past due loans to accrue no interest but allows recovery of all principal. ARLF will realize some recovery on the defaulted loan through reduced borrower payments. The alternative for ARLF would be foreclosure and repossession. ARLF would have equipment, livestock or land to sell before receiving income. Because the Alaska agricultural industry is small, the market for equipment, livestock and agricultural land is limited, thereby significantly reducing the potential income from assets. This is particularly true in the current economic climate in Alaska which exacerbates the limited market. In conclusion, without loan servicing functions, a loan program would be limited to collection and asset maintenance

options that would not necessarily be in the best interest of the State of Alaska.

As a revolving loan fund, money received on loans and through loan servicing efforts is returned to the fund. Loan servicing options can provide a greater income stream, thereby enhancing the revolving nature of the fund. The financial integrity of the fund can be improved by the use of the full range of loan servicing options. A financially sound revolving fund is in a better position to make long term loans as required by AS 3.10.010.

The loan servicing program that was outlined in the June 25, 1987 memo, including expanding ARLF money to maintain assets, and changing terms and conditions of current loans is within the implied powers of AS 3.10.010.

The need for farm-oriented banks and government agencies across the nation to devise new loan servicing programs for farms became critical in 1986. The guidelines contained in the June 25, 1987 memorandum are based on a proposal by the American Farm Bureau dated March 6, 1986 and the standards for troubled debt restructuring as affected by Financial Accounting Standard Board Rule 15 approved by the Comptroller of Currency for the United States Treasury in March 1986. The Comptroller of currency issued banking circular on March 28, 1986 allowing significant modification of interest rates and other loan terms when the modifications allowed improvement of the overall portfolio performance. (Comptroller of the Currency, Banking Circular: Capital Forbearance Policies, Mar. 28, 1986, pp. 1, 7). These programs and their justifications were not available when John A. McDonagh wrote his January 31, 1986 memorandum to Jerry Brossia. Therefore, this memorandum supersedes the January 31, 1986 memorandum because of the changes in national accounting rules and banking procedures regarding loan servicing through work outs.

The June 25, 1987 memo also includes a suspension of clearing payments, provided the land is devoted to agricultural use. The suspension, as stated, does not enhance the repayment possibility of the clearing loan.

The suspension significantly alters the clearing loan transaction between ARLF and the borrower. A loan of money is defined as a contract by which one delivers money to another and the latter agrees to repay the money at a later date. United States v. Neifert-White Co., 247 F. Supp. 573 (1965), affirmed 372- F.2d 372 (9th Cir. 1967), reversed and remanded on other

grounds, 390 U.S. 229 (1968). Because payment is suspended indefinitely, the transaction is not longer a loan. The question becomes whether ARLF has the authority to alter a loan transaction to another type of transaction.

The June 25, 1987 guidelines identify two types of clearing loans, those funded directly from ARLF and those funded by the Agricultural Action Council and administered by ARLF. ARLF has the authority to make clearing loans under AS 03.10.030(g). However, there is no legislative authority for a transaction other than a loan. Therefore, ARLF generally lacks authority to institute a program that changes a loan into another type of transaction. The exception is ARLF funded clearing loans on the Delta Projects, which can be forgiven under the provisions of SLA 1986, Chap. 109.

The legislation for the AAC clearing loans provided more flexibility. SLA 1979, Ch. 80, sec. 25, p. 67, l. 34 to p. 68 l. 7 appropriated \$4.736 million to "final clearing" for the Delta I project. SLA 1981, ch. 82, sec. 30, p. 156, l. 24 to p. 157, l. 10 appropriated \$4 million for Delta II project "clearing loans". SLA 1982, ch. 25, sec. 4, p. 11, ll 7-11 appropriated \$402,000 for Delta I "clearing loans". The legislative authority was for some funds for loans, for other funds, the legislation does not specify the type of clearing transaction. SLA 1986 chap. 109, requires that the commissioner of natural resources forgive clearing loans on the Delta Projects if forgiveness is requested as part of relinquishment.

If a Delta clearing loan is involved as a part of a restructuring request under the June 25, 19887 guidelines that does not include a relinquishment request, then the source of funds must be determined. For those loans made with funds which were appropriated for loans, there is no legislative authority for suspension. For those loans made with funds which were appropriated for clearing, a suspension program is within the intention of the legislation.

SLA 1980, chap. 70, sec. 1, grants \$3.6 million to the AAC for Point MacKenzie "land clearing". The AAC chose to use the money for clearing loans. DNR assumed the administration of the AAC loans in 1984. SLA 1984, Chap. 171, sec. 49. By the June 25 guidelines, DNR, through ARLF, has chosen to change the clearing loans to a conditional grant. Since grants are one way of accomplishing land clearing, the change is permissible under the legislation.

Mark Weaver

December 7, 1987
Page 6

In summary, if the clearing loan is attached to land that is part of the Delta projects, the loan must be forgiven of part of a relinquishment request. If the loan is not part of a relinquishment request, the source of funds must be discovered to determine whether the changing a loan to a conditional grant program by payment suspension is permitted by legislation.

JMT:cmh
memo.jmt

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465.3800

MEMORANDUM

February 29, 1988

SUBJECT: Authority to restructure mortgage loans
(Work order 5-2012)

TO: Representative Steve Frank
ATTN: Rick Solie

FROM: Jack Chenoweth
Legislative Counsel

You have asked for a review of the ability of the state agencies that manage residential mortgage lending programs to restructure those loans under current law.

The sources of the principal residential mortgage loan programs are:

-- loans made under one of the various housing assistance programs by the Alaska Housing Finance Corporation under authority of AS 18.56; 1/

-- loans made from the Housing Assistance Loan Fund and the Homeownership Assistance Funds by the Division of Housing Assistance of the Department of Community and Regional Affairs under the authority of AS 44.47.360 - 44.47.560. 2/

Though their total numbers are significantly below the numbers of loans made by each of the entities mentioned above, loans for residential purposes may also be made by

-- the Alaska Permanent Fund Corporation;

-- the commissioner of revenue, acting in the capacity of treasurer of the state's retirement systems for the pension fund surpluses of the Public Employment Retirement System and the Teachers' Retirement System.

"Restructuring of mortgage loans" is usually understood to mean at least one of the following:

-- forbearance arrangements or agreements, authorizing the borrower to reduce or suspend regular mortgage payments for a stated period; or,

- modification of the terms of a mortgage, including
 - reduction of payments of principal
 - without affecting the total debt obligation of the mortgagor on the mortgage loan; or
 - accompanied by a concomitant reduction in the total debt obligation of the mortgagor on the mortgage loan;
 - reduction of the interest payment payable on the loan; or
 - delay or postponement of the due date of the mortgage obligation.

Alaska Housing Finance Corporation mortgage loans:

The Alaska Housing Finance Corporation enjoys wide latitude as to how it may address delinquent loans and those that may become delinquent. In the enumeration of the general powers of the corporation, AS 18.56.090(11) provides that the corporation may, "for its . . . corporate purposes":

consent to the modification of the rate of interest, time of payment of any installment of principal or interest, or any other terms, of the mortgage loan, mortgage loan commitment, construction loan, temporary loan, contract or agreement of any kind to which the corporation is a party;

While this statutory language sets no limits, there are some practical constraints.

AHFC principally finances its programs through the use of bond proceeds. AS 18.56.110 generally prescribes limitations applicable to the bonds and notes of the corporation. AS 18.56.110(f)(3) authorizes the corporation to "covenant as to the use and disposition of any and all payments of principal and interest received by the corporation on mortgage loans . . . or other investments held by the corporation." Under AS 18.56.120,

The pledge of assets or revenue of the corporation to the payment of the principal or interest on any obligations of the agency is valid and binding from the time the pledge is made and the assets or revenue are

immediately subject to the lien of the pledge without physical delivery or further act. . . .

So it is to the covenants that support the underlying bond issues rather than to provisions of state law that one must look to determine whether AHFC's various mortgage loan programs permit restructuring of outstanding loans. One must also consider the agreements between AHFC and, on the one hand, agreements entered into with the Federal National Mortgage Association (and similar entities) covering sales of mortgages and loans and, on the other hand, agreements with the corporation's own mortgage seller/servicers. Each of these groups of agreements may include provisions limiting the corporation's flexibility in responding to defaults and potential defaults by the borrowers.

These agreements notwithstanding, AHFC does authorize loan modifications under certain circumstances. The corporation's seller/servicer manual identifies those as limited to instances in which the mortgagor's income has been permanently affected by accident or illness, or in which the mortgagor's income has been reduced or eliminated altogether for a temporary period and which has not recovered sufficiently to maintain the current mortgage. The corporation will also consider a modification "if the servicer [of the mortgage] feels that changing the terms of the mortgage would not only cure [a] present delinquency but also prevent future delinquencies." AHFC must give prior approval and "will consider . . . reamortizing the debt to include the delinquent payments or extending the term of the loan by the number of past due installments." AHFC Seller/Servicer Manual sec. 9002.06.

In summary, current state law generally appears to provide sufficient latitude for the Alaska Housing Finance Corporation to modify loans and loan provisions for loans that are delinquent or may become delinquent. Legislative initiatives to amend the law to redefine or extend AHFC's authority need to be concerned with possible claims against impairment of contracts entered into by the corporation, particularly with bond underwriters, federal government agencies that purchase the mortgages, and the corporation's seller/servicers.

Department of Community and Regional Affairs mortgage loans:

State law applicable to management of the department's mortgage loan programs does not specifically provide the department latitude to restructure repayment of principal and interest on its loans. The department's own regulations are also silent on the point.

The department has asserted to you that it may not reduce interest payable. Its assertion seems to be borne out by the following:

- the interest rate payable by a borrower under the rural owner-occupied housing program is, by statute (AS 44.47.410(b)), tied to the rate based on the most recent AHFC bond sale;

- the interest rate payable by a borrower under the rural non-owner-occupied housing program is set by statute (AS 44.47.520(b)) as an amount not to exceed $10\frac{1}{2}$ percent; the department advertises that the rate is $10\frac{1}{2}$ percent;

- the interest rate payable by a borrower under the homeownership assistance housing program, the interest-subsidy assistance program, directs by statute (AS 44.47.382(b)) that, for qualifying borrowers, the subsidy allowable shall be sufficient to reduce the actual interest rate paid on the mortgage to six percent.

The net effect of the three statutes cited suggests that the department is without discretion to adjust or reduce interest payable by a borrower under any of the three programs.

The department has also represented to you that, while it may adjust payments of principal on outstanding housing program loans, its authority to adjust the payments is limited to modifying current principal payments without reducing the mortgagor's total debt obligation under the mortgage loan. In other words, the department believes that it may reduce monthly payments, but the reductions corresponding serve to extend the repayment obligation to an additional period; the department may not cancel or forgive a portion of the borrower's indebtedness.

The source of the department's mortgage lending activity is the housing assistance loan fund. That fund is established by statute (AS 44.47.380) and was, by a 1983 amendment, made

a revolving loan fund. 3/ A revolving loan fund is commonly thought of, and in Alaska legislation has been nearly universally treated, as a fund that is continually expended and replenished, from which withdrawals are made as loans but with a corresponding obligation to repay the fund in order to keep it intact. 4/ Legislative appropriations for state revolving loan funds are typically treated as non-lapsing appropriations, and any repayments of principal on loans purchased or originated with these appropriations should be deposited into the fund and made available from the fund for subsequent expenditure.

In my judgment, the department's representation to you seems to be fully consistent with its duty to maintain the integrity of the housing assistance loan fund as a revolving fund. A reduction in principal payments accompanied by a cancellation of a portion of a borrower's indebtedness would compromise the fund balance and the ability of the agency to use the fund balance as a source of loans in subsequent years.

Investments of the Alaska Permanent Fund Corporation:

Under authority granted in AS 37.13.120(g)(16), the corporation may invest in

notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings [subject to specific mortgage insurance requirements];

Like the Alaska Housing Finance Corporation, the Alaska Permanent Fund Corporation enjoys broad authority to manage investments. The corporation is authorized to "enter into and enforce all contracts necessary, convenient, or desirable for purposes of the corporation." (AS 37.13.120(f)). The residential mortgages purchased by the corporation as investments become assets of the corporation subject to the corporation's general asset management policies.

Since the Permanent Fund Corporation regularly receives income from sources other than those that support the mortgage lending activities of AHFC or the Housing Assistance Division, it is not constrained by the same considerations that circumscribe loan management practices of those two entities. Within the broad authority of the statutes directing its activities, the Permanent Fund

Representative Steve Frank
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February 29, 1988

Corporation appears to have ample legal authority to structure or restructure loans that are potentially or actually delinquent.

Retirement Funds investments:

The commissioner of revenue may invest the surpluses of the Public Employees' Retirement System and the Teachers' Retirement System in, among other permissible investments specified by law, residential mortgages. AS 39.35.-110(a)(10) (for the Public Employees' Retirement System) and AS 14.35.180(b)(10) (for the Teachers' Retirement System) authorize the commissioner to invest in "first lien real estate mortgages guaranteed by the federal Veterans Administration." AS 39.35.110(a)(11) and (12) and AS 14.35.-180(b)(11) and (12) authorize investments involving other kinds of residential mortgages, subject to specific limitations set out in those paragraphs and in AS 39.-35.110(e) and AS 14.25.180(e), respectively.

As to each of the two retirement programs, the commissioner is authorized by law to "do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund." AS 39.35.110(d); AS 14.25.180(d).

JBC:bb
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FOOTNOTES

1/ The loans of the Alaska Housing Finance Corporation may be classified among the following specific loan programs:

- home ownership assistance program (a program to provide mortgage subsidies to persons of low and moderate income);

- mobile home loan purchase program (a program to provide low-cost financing for mobile homes);

- pledged account mortgage program (a program to assist persons with sufficient assets but whose income does not meet the minimum monthly income requirements generally applicable to the corporation's loan programs);

- second mortgage loan program (a program to provide low-interest loans for home improvements or rehabilitation in order to make the units more habitable, and to finance second mortgages in order to allow home purchases);

- taxable mortgage program conventional loan (the principal AHFC homeowner assistance program, applicable to owner-occupied units);

- tri-plex and four-plex mortgage loan program (a program to allow the purchase of owner-occupied tri- and four-plex units);

- veterans' mortgage program (a program to provide additional assistance to qualifying veterans through a reduced interest rate);

2/ The Department of Community and Regional Affairs' loans involve the following specific programs:

- rural owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a housing unit, limited to single family units and duplexes, for use as the borrower's principal residence);

- rural non-owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a multiple unit housing project, generally two to eight units, though larger under extraordinary circumstances);

Representative Steve Frank
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February 29, 1988

-- home ownership assistance housing (a program to provide assistance to persons of lower and moderate income to purchase or construct single-family, owner-occupied dwellings, through the use of subsidized interest payment support).

3/ A January 23, 1984, Opinion of the Attorney General provides guidance to the Department of Community and Regional Affairs as to the proper handling of the repayments of principal and interest earnings on loans made from the loan fund before and after the 1983 amendment establishing it as a revolving fund.

4/ "Revolving loan funds provide for the return to the fund of repayments by borrowers of the principal (and frequently the interest on that principal) which was loaned to them from the fund so that new loans can be made on a continuing basis." 1982 Opinions of the Attorney General #13, November 30, 1982, at page 12.

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PUBLIC OPINION MESSAGE

DEAR: SENATOR STURGULEWSKI

Handwritten signature/initials

NAME: ADELINE MONGEAU

TITLE:

ADDRESS: 3404 ARCTIC BLVD.

CITY: ANCHORAGE, ALASKA

PHONE: 562-2232

BILL NO:

SUBJECT: BAIL OUT

ZIP: 99503

MESSAGE: NO ONE BAILED ME OUT. I LOST MY BUSINESS. I GREW UP IN TEXAS WHERE
NO ONE HAS BEEN BAILED OUT. WE CAN NOT CONSIDER SPECIAL LEGISLATION TO
SUPPORT A SELECT FEW. NO BAIL OUT FOR ANYONE!!!!!!

POMID: 03110614

DATE: 03/07/88

TIME: 11:06:14

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

ADAMS
BOUCHER
BROWN
COLLINS
DAVIDSON
DONLEY
FRANK
GOLL
GRUSSENDORF
HERRMANN
HUDSON
LARSON
MENARD
NAVARRE
PETTYJOHN
POURCHOT
SHULTZ
SUND
TAYLOR
WALLIS

BARNES
BOYER
CATO
COTTEN
DAVIS
ELLIS
FURNACE
GRUENBERG
HANLEY
HOFFMAN
KOPONEN
MARTIN
MILLER
PEARCE
PHILLIPS
RIEGER
SPRINGER
SNACKHAMMER
ULMER
ZAWACKI

ABOOD
BINKLEY
COGHILL
DUNCAN
ELIASON
FAHRENKAMP
FAIKS
FANNING
FISCHER
HALFORD
HENSLEY
JONES
JOSEPHSON
KELLY
KERTTULA
RODEY
SZYMANSKI
UEHLING
ZHAROFF

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,

A handwritten signature in dark ink, appearing to read 'F. H. Burrow', with a stylized flourish at the end.

FRED H. BURROW
President

:khc1/30

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 \$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.

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



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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

February 18, 1988

Mr. Frank Homan
Office of Senator Sturgulewski
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Frank:

Attached is some information that was presented at the last Alaska Housing Market Council meeting. Interesting to note the "magnitude" of the problem. Of \$680.0 million in delinquent loans, AHFC has \$650.4 million of them. This makes sense when one looks at the size of the portfolio with AHFC in billions and everyone else in the millions, mostly less than \$100 million.

For what it's worth.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/ss
attachment

	Number of Loans Outstanding	Unpaid Principal Balance (\$ in millions)	Number of Loans Delinquent or in Default	Unpaid Principal Balance (\$ in millions)	Delinquency Rate (a)
ANFC	51,034	\$4,251.6	7,770	\$650.4	15.2%(c)
DCRA-HAD	1,336	138.0	75	12.3	5.6%
AK Permanent Fund	258	39.7	19	3.0	7.4%
AIDA/Division of Invest.	1,542	66.1	117	5.8	7.6%
State Res. Energy Loans (d)	1,103	2.7	107	0.3	9.7%
AIDA multi-family residential loans (e)	13	11.5	8	9.0	61.5%
Alaska Pension Funds (f)	NA	NA	NA	NA	NA

STATE LOANS	55,286	\$4,509.6	8,096	\$680.8	14.6%

FNMA (g)	5,606	444.7	680	53.9	12.1%
FHLMC	5,279	504.0	307	29.3 (i)	5.8%
FHA-Insured (j)	11,653	1,130.3 (k)	1,346	130.6 (k)	11.6%
VA-Guaranteed (l)	4,594	359.2	414 *	34.8	9.0%
Farmer's Home Admin.	1,300	77.0	89	6.7 (m)	6.8%
MGIC (o)	N/A	N/A	N/A	N/A	N/A

NON-STATE LOANS	28,432	\$2,515.2	2,836	\$255.3	10.0%

TOTALS	83,718	\$7,024.8	10,932	\$936.1	13.1%

RESIDENTIAL MORTGAGE LOANS IN ALASKA: NOTES

* AHMC estimate.

N/A - Not applicable.

NA - Not available.

[a] - Delinquency rate was determined by dividing the "number of loans delinquent or in default" by the "number of loans outstanding".

[b] - Most entities determined the value of their REOs to be the Unpaid Principal Balance of the loans on the properties foreclosed.

[c] - Most institutions determine that a loan is delinquent after 60 days. This figure reflects a 90 day cutoff. If the number of active loans is used, as opposed to outstanding loans, the delinquency rate would be 16.63%.

[d] - Though the State Residential Energy Loans are not mortgage loans per se, they do reflect second or third mortgages. These numbers are significant because these loan amounts will often show as a total loss to the state should the borrower default on the first mortgage.

[e] - Though these loans are more commonly referred to as commercial loans, they do affect and reflect the residential market. However, the delinquency rate is a better reflection of the commercial market than the residential market.

[f] - Reliable estimates of the pension fund residential mortgage holdings are not available as these figures are often combined with figures on other mortgage holdings of the funds.

[g] - Figures are AHMC estimate of FNMA loans not held by AHFC on September 30, 1987 based on available information.

[h] - FNMA's estimate of market value is \$43,300,000.

[i] - Based on an estimated average loan balance of \$95,500.00.

[j] - Figures are AHMC estimate of FHA-insured loans not held by AHFC on September 30, 1987 based on available information.

[k] - Based on HUD's estimated average balance of \$97,000.00.

[l] - Figures are AHMC estimates of VA loans not held by AHFC on June 30, 1987 based on available information.

[m] - Based on Farmers' Home Administration estimated average balance of \$75,000.00.

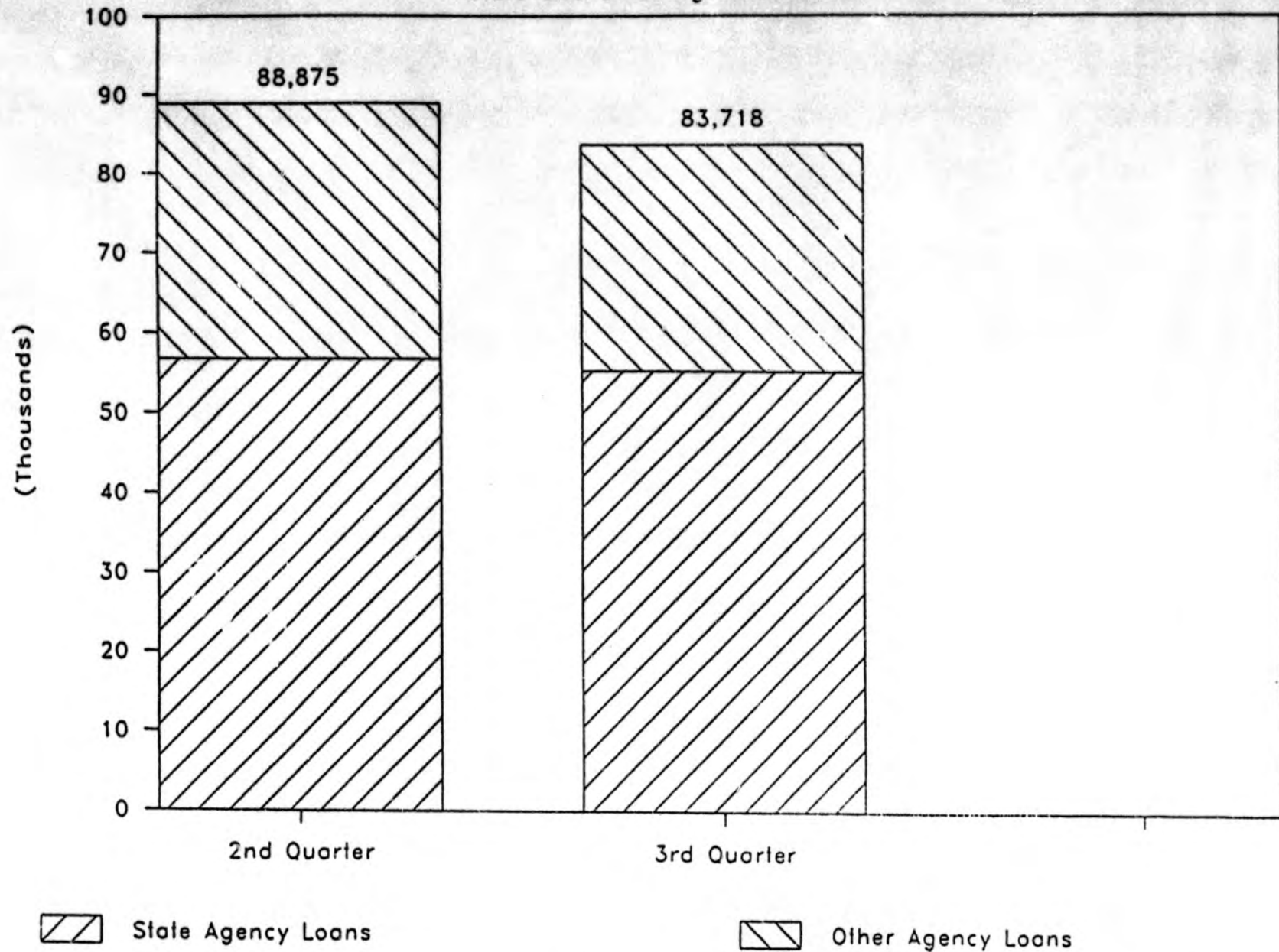
[n] - Farmers' Home Administration estimate of market value.

[o] - MGIC is a mortgage insurance company, they do not hold loans; however, they do acquire property.

[p] - MGIC estimate of market value is based on 66% of the acquisition value; \$7,469,341.

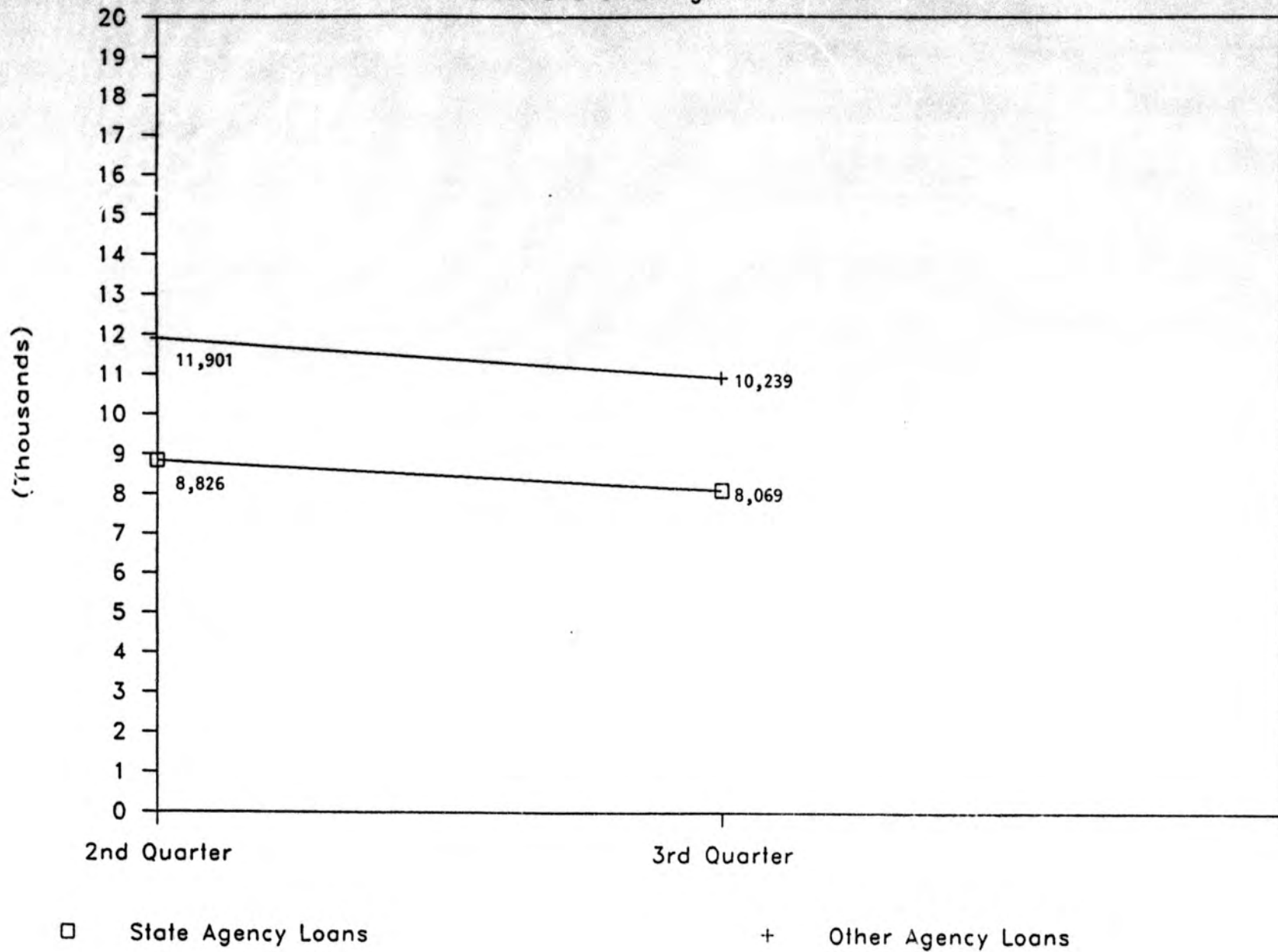
Number of Loans Outstanding:

State and Other Agencies in 1987



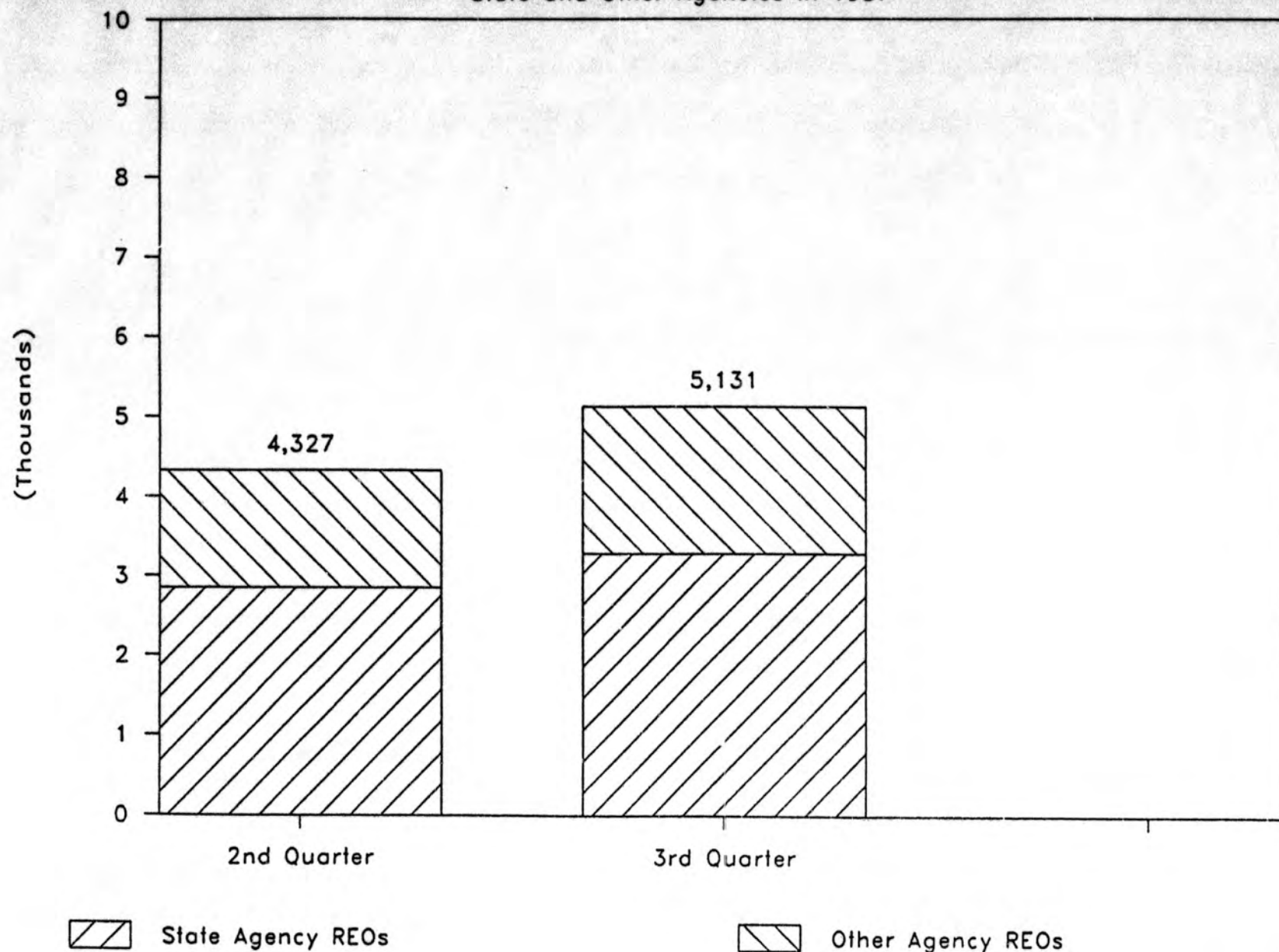
Loans in Delinquency or Default:

State and Other Agencies in 1987



Number of Real Estate Owned (REO):*

State and Other Agencies in 1987

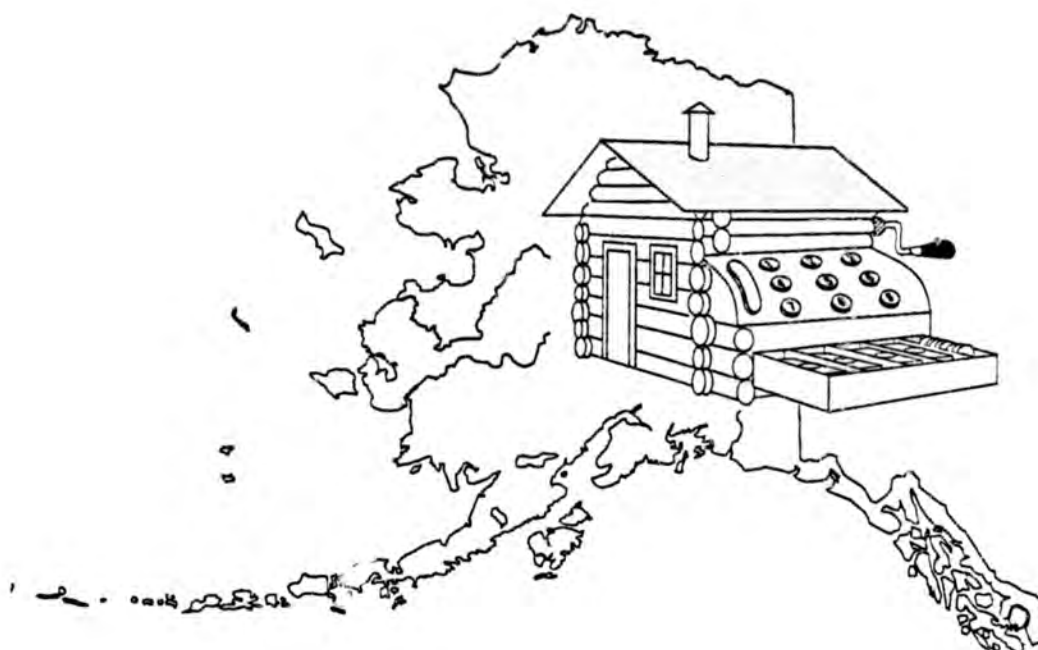


* Does not include REOs held by private lending institutions.

Prepared by: Alaska Housing Market Council, 624 W. International Airport Rd., Anchorage, AK, 99518, 563-3325
2/10/88

Rural Economic Development Initiative (REDI) Grant Program

Application Handbook FY88



Rural Development Division
Block Grant Administrator
P.O. Box BC
Juneau, Alaska 99811
Phone: (907) 465-4890

State of Alaska
Steve Cowper, Governor

Department of Community and Regional Affairs
David G. Hoffman, Commissioner

December 1987



REDI Program: Questions and Answers

The Department of Community and Regional Affairs recently introduced a new grant program called the Rural Economic Development Initiative (REDI) grant program. Because the program is new there are many questions and concerns regarding its use. This information sheet addresses the most frequent inquiries.

WHAT IS THE REDI GRANT PROGRAM?

It is a new grant program which replaces the old Community Development Block Grant (CDBG) and Rural Development Assistance (RDA) grant programs. The overall goal of REDI is one of enhancing the quality of life in Alaska's communities, through an emphasis on economic development projects in and for rural Alaska.

The REDI grant program is designed to help communities:

- Increase business and employment opportunities;
- Promote self-sufficiency and diversification in local economies;
- Expand the capacity of local communities to plan and support economic development; and,
- Meet situations which impact the community's health and welfare in such a manner as to PROMOTE LONG-TERM SOLUTIONS.

WHAT KINDS OF GRANTS DOES THE REDI PROGRAM OFFER?

There are four categories of grants available. They are:

- Economic Development
- Community Development
- Technical Assistance
- Emergent Need



WHAT IS AN ECONOMIC DEVELOPMENT PROJECT AND WHAT IS THE MAXIMUM GRANT AMOUNT?

An Economic Development project is a project which expands existing industry or establishes a new industry in a local community. The project provides long-term benefits in the form of jobs and injects income into the local micro economy of the community. This may occur in two ways; the first is import substitution and the second is export development. The latter is an application of the economic base theory which contends that a microeconomy, in order to remain healthy, must have constant injections of income from outside that economy.

The maximum amount a community can be granted, in a single year, is \$200,000.

WHAT IS A COMMUNITY DEVELOPMENT PROJECT AND WHAT IS THE MAXIMUM GRANT AMOUNT?

These projects should develop basic community facilities or infrastructure for the economic development of a community. Typical projects may include public utilities, transportation improvements, fixed plant facilities, or buildings and structures.

The maximum amount a community may be granted in a single year is \$100,000.

WHAT IS A TECHNICAL ASSISTANCE GRANT AND WHAT IS THE MAXIMUM GRANT AMOUNT?

Technical Assistance grants may be awarded under all other categories. Purposes may include: a targeted grant of limited scope needed to accomplish a specific piece of work in support of the design and development of an economic project (i.e. architect or engineering work needed to move a project forward, marketing research, development of a business plan, or development of a financing package needed to assist in project mobilization); a Community Development Technical Assistance grant may be used for facility planning, life-cycle costing, permit requirements (i.e. surveying, site control).

Technical Assistance grants are limited to \$15,000 each.

WHAT IS AN EMERGENT NEED GRANT AND WHAT IS THE MAXIMUM GRANT AMOUNT?

Emergent Needs shall refer to those needs that arise affecting projects which meet the goals of this program, but which require immediate remediation. Examples are:

- Deadlines affecting financial packages critical to a project;
- Emergency situations arising from the imposition of regulations affecting resources important to the project (site control, DEC requirements);
- Needs requiring special mitigation and amelioration such as a sudden change in market or supply conditions;
- Sudden and unplanned changes in insurance or bonding requirements, availability, price; and
- No other source of funds can be identified.

Emergent Needs grants have no maximum amount, though only a small amount of the total funds available is allocated for Emergent Needs.

WHO IS ELIGIBLE TO APPLY?

An eligible applicant is: any municipal government entity as defined by Title 29 of the Alaska Statutes, (i.e., home rule, 1st, 2nd, and 3rd class boroughs, unified municipalities, and 1st and 2nd class cities) which exercises powers consistent with the proposed project, and which is a non-entitlement jurisdiction as defined by the Federal Department of Housing and Urban Development; (i.e., all municipal jurisdictions except the Municipality of Anchorage may apply); or,

A village council organized under the Indian Reorganization Act, 25 USC-476; or a traditional village council. (An additional requirement of either council is that it must irrevocably waive any claim to sovereign immunity which might arise in connection with the use of grant money.); or,

A nonprofit corporation organized under A.S. 10.20.

The Department will prefer a municipal applicant over other applicants. While the Department may have this requirement, it is conceivable a project proposed by another eligible entity in a community could benefit that community. Therefore, if the Department sees the opportunity to bring together two or more sponsors for a project, thus ensuring the project a higher degree of success, the Department may propose a joint agreement between entities of a community. This flexibility would also provide for additional funding levels.

In the absence of a municipal applicant, the Department will have to make a decision on the most appropriate entity to apply for and administer a REDI project. For example, when there is more than one eligible entity in an unincorporated area the Department will need to identify the appropriate entity to apply for REDI funding. The most appropriate entity would be that entity which indicates a strong desire to serve the entire community. The same cooperative arrangement which allows for additional funding levels for incorporated areas would also apply to unincorporated areas with two or more eligible entities.

For-profit entities may apply in conjunction with municipalities or other eligible entities.

HOW DOES A COMMUNITY OR A PRIVATE CITIZEN APPLY FOR A REDI GRANT?

Contact the DCRA Regional Office located nearest you, or the Central Office located in Juneau (465-4890). You may also contact Mr. Elstun Lauesen, Statewide Economic Development Specialist, at 452-4468.

WHAT ARE THE APPLICATION DEADLINES?

1. Preapplications for the Community Development category will be accepted twice a year.
2. Preapplications for the Economic Development, Technical Assistance and Emergent Need categories will be accepted year round by the Department.
3. Final Applications will be considered once a month.

RURAL ECONOMIC DEVELOPMENT INITIATIVE
GRANT PROGRAM

1988 APPLICATION SCHEDULE

ECONOMIC DEVELOPMENT, TECHNICAL ASSISTANCE
AND EMERGENT NEEDS:

A Preapplication Review Committee (PARC) will review Preapplications biweekly (every two weeks) year round. All Preapplications are then processed according to the results of that initial review.

When Final Applications are complete, they will be considered for funding by the Application Selection Committee (ASC), which meets monthly.

1. Preapplication and application materials will be available beginning in December, 1987.
2. Preapplications and applications will be accepted year round.

COMMUNITY DEVELOPMENT GRANTS

1. Deadline for receipt of Community Development Applications:

Round 1	February 15, 1988
Round 2	October 3, 1988
2. Staff review and assistance for Community Development Applications provided on a continuous basis.
3. Director Approves and Announces Community Development Awards:

Round 1	March 31
Round 2	November 30



Department of Community and Regional Affairs

RURAL ECONOMIC DEVELOPMENT INITIATIVE

APPLICATION HANDBOOK

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PREAPPLICATION

RURAL ECONOMIC DEVELOPMENT INITIATIVE
GRANT PROGRAM

1988 APPLICATION SCHEDULE

ECONOMIC DEVELOPMENT, TECHNICAL ASSISTANCE
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RURAL ECONOMIC DEVELOPMENT INITIATIVE

INTRODUCTION

This Handbook contains the guidelines for Alaska's Rural Economic Development Initiative (REDI) program. The REDI program includes funds from the federal Department of Housing and Urban Development provided Community Development Block Grant (CDBG)* program and the State provided Rural Development Assistance (RDA) program. The overall goal is one of enhancing the quality of life in Alaska's communities, through an emphasis on economic development projects in and for rural Alaska.

The guidelines describe the general requirements which will apply to all local governments requesting REDI funds as well as the specific requirements and ranking criteria which will be used to evaluate applications.

The REDI program is designed to help communities:

Increase business and employment opportunities;

Promote self-sufficiency and diversification in local economies;

Expand the capacity of local communities to plan and support economic development; and,

Meet situations which impact the community's health and welfare in such a manner as to promote long-term solutions.

To achieve these goals, the REDI program offers grants and/or loans to eligible communities in four categories. They are: Economic Development, Community Development, Technical Assistance and Emergent Needs.

*A. BACKGROUND ON H.U.D. FUNDING

The Housing and Community Development Act of 1974 has historically provided discretionary federal funds administered by the U.S. Department of Housing and Urban Development for non-entitlement community projects which principally benefit low and moderate-income persons. The Omnibus Budget Reconciliation Act of 1981 made fundamental changes in the transfer of power and decision-making with respect to these Community Development Block Grants. Each state now has the option to administer the block grants for all its non-entitlement areas.

During FY82 the State of Alaska elected to administer Community Development Block Grant (CDBG) discretionary funds for the State's non-entitlement areas (also known as the Small Cities Program). HUD proposed regulations on November 20, 1981 which described how states could assume administrative authority for these discretionary funds. The State of Alaska

assumed administration of the program during FY82. In compliance with those regulations the State of Alaska is now making application for its seventh year of funding by submitting this Final Statement for administration of the non-entitlement Community Development Block Grant for FY88.

B. PREVIOUS USE OF C.D.B.G. FUNDS

The State selected seven communities, through a competitive selection process, to receive FY87 CDBG funds. Each community selected was reviewed for its compliance with Federal and State goals and objectives. Applications were funded for large and small city capital projects and a planning/feasibility project.

In addition to the benefit to Low- and Moderate-income Persons, projects met one or more of the following objectives:

1. Promote health and welfare of community.
2. Upgrade or create facilities to provide safer community environment.
3. Reduce cost of essential community services.
4. Promote community self-sufficiency.
5. Provide infrastructure for economic and/or employment generators.
6. Relieve adverse conditions caused by external development.

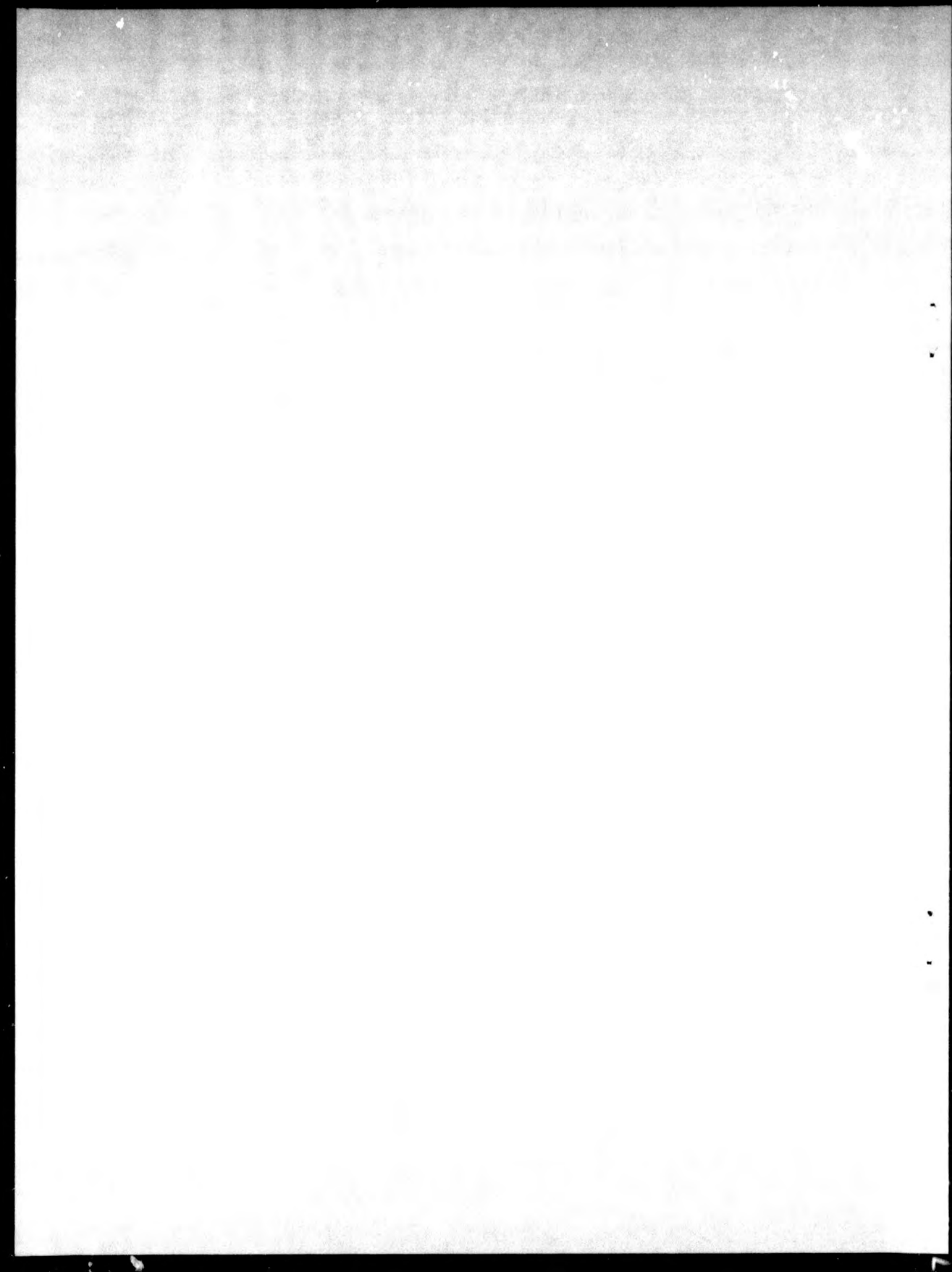
C. FEDERAL OBJECTIVES

According to requirements outlined in Title I of the Housing and Community Development Act of 1974 (as amended through 1983) the State of Alaska must insure that each funded activity meets at least one of the three national objectives. These include: "(1) ...the projected use of funds has been developed so as to give maximum feasible priority to activities which will benefit low- and moderate-income families, or (2) aid in the prevention or elimination of slums or blight, and (3) the projected use of funds may also include activities which are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs."

The State of Alaska gives the highest priority to REDI Grant activities which will principally benefit low- and moderate-income families.

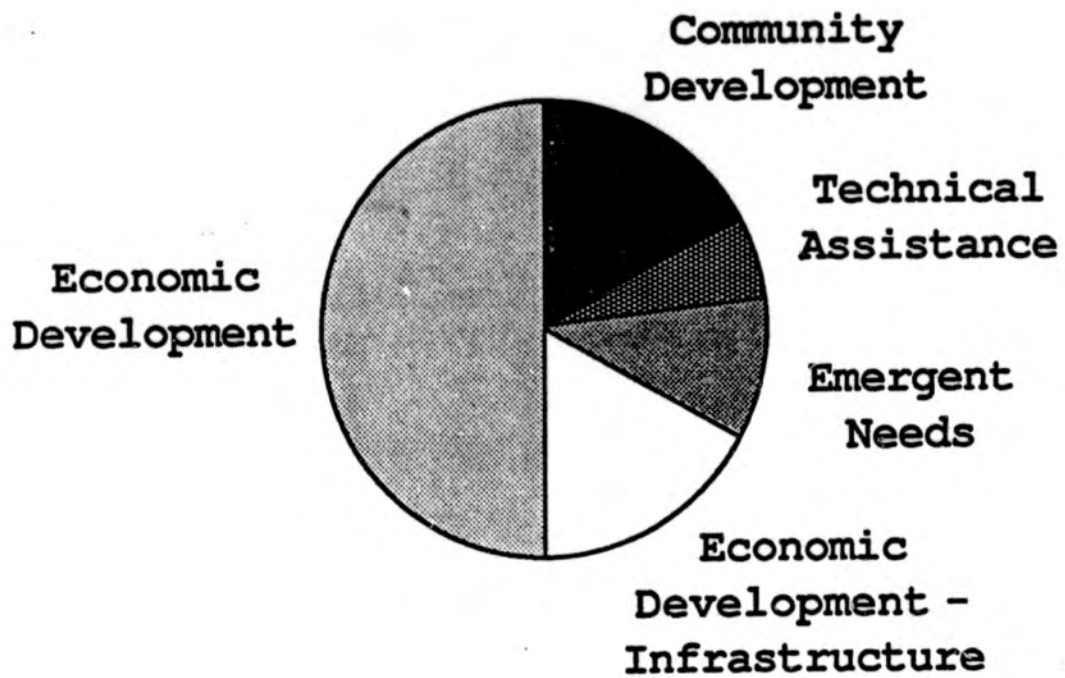
D. DISTRIBUTION OF STATE FY88 H.U.D. FUNDS

The State of Alaska expects to receive an amount approximately four percent (4%) less than the FY87 allocation of \$1,526,000 as advised by the HUD Seattle Regional Office. These funds will be distributed as described in the Final Statement.



I. GENERAL INFORMATION

A. REDI FUNDING CATEGORIES



DURING A PROGRAM (STATE FISCAL) YEAR, AN ELIGIBLE ENTITY MAY BE AWARDED A MAXIMUM OF ONE GRANT PER EACH CATEGORY.

1. Economic Development - projects should accomplish one or more of the following:

Support those projects that will increase the number of jobs in the State;

Promote economic recovery in small communities heavily dependent on a single industry;

Emphasize development in underdeveloped rural areas;

Support the development of the State's small businesses, especially those owned by women and minorities;

Promote energy conservation in rural areas, or;

Encourage projects that assist businesses selling goods and services in markets for which national or international competition exists.

An emphasis will be placed on this category of REDI funds. A majority of the funds available will be awarded for Economic Development projects.

See Chapter XI for special requirements and ranking criteria which are specific to the Economic Development category.

Maximum grant amount for the Economic Development category is \$200,000.

2. Community Development - projects should develop basic community facilities or infrastructure for the economic development of a community. Typical projects include those from the following list:

Public utilities, including water and sewer systems, electrical distribution and interties and fuel and gas distribution systems;

Transportation improvements, including local service roads and trails, airports, barge facilities or subsistence access areas;

Fixed plant facilities, including manufacturing facilities, transmitters and generators; or,

Buildings and structures, including storage facilities, warehouses, aircraft facilities, fire stations, docks, clinics and daycare facilities.

This list is not all inclusive, but rather is noted to give general direction to applicants. Maximum grant amount for the Community Development category is \$100,000.

3. Technical Assistance - grants will be awarded under project categories 1., 2., and 4. (Economic Development, Community Development and Emergent Needs). Technical Assistance grants will be available to all eligible communities for economic development needs or for the planning needs of a proposed project.

All technical assistance studies must include a statement that the project was funded by the State of Alaska, Department of Community and Regional Affairs.

Maximum grant amount for the Technical Assistance category is \$15,000.

4. Emergent Needs - shall refer to those needs that arise affecting projects which meet the goals of this program, but which require immediate remediation. Such conditions may include, but are not limited to:

Deadlines affecting financial packages critical to a project;

Emergency situations arising from the imposition of regulations affecting resources important to the project (e.g., Fish & Game "Commercial Allocation" issues, site control problems, DEC requirements, etc.);

Needs requiring special mitigation and amelioration such as a sudden change in market or supply conditions;

Sudden and unplanned changes in insurance and bonding requirements, availability, and price; and,

No other source of funds can be identified.

Emergent Needs funds will be distributed on a non-competitive basis. The amount of funds available for this purpose are very limited.

B. APPLICATION DEADLINES

1. Preapplications for the Community Development category will be accepted twice a year.
2. Preapplications for the Economic Development, Technical Assistance and Emergent Need categories will be accepted year round by the Department.
3. Final Applications will be considered once a month.

C. SINGLE-PURPOSE PROJECTS

REDI grants are for single-purpose projects. An applicant may propose ancillary activities with REDI funds as long as they are related to the main activity and, taken together, do not exceed the funds requested for the main category. If more than one activity is proposed they all must clearly relate to the single need established and be required to accomplish it.

D. RECAPTURED FUNDS

All federal funds recaptured from a current or previous year will be awarded to qualified recipients for projects in all funding categories, according to the criteria used in the year the funds were awarded to the State.

E. PAST RECIPIENTS

A past recipient of funds from the CDBG or RDA programs is not eligible to apply for REDI funds until the following conditions have been met:

Fiscal Year 1985 grantees - 90% of non-administrative funds drawn down or project completed;

Fiscal Year 1986 grantees - 75% of non-administrative funds drawn down or project completed; and,

Fiscal Year 1987 grantees - 50% of non-administrative funds drawn down or project completed.

F. GRANT/LOAN AMOUNT

The maximum amount that may be awarded for a single grant in a program year for each category is:

Economic Development	\$200,000.
Community Development	\$100,000.
Technical Assistance	\$ 15,000.
Emergent Needs	no maximum amount, though only a small amount of the total funds available is allocated for Emergent Needs

The State may offer an applicant an amount for less than the amount applied for. A community may apply for funds from more than one category, to use on a single project, but a separate PreApplication must be completed and processed for each separate category, clearly showing how each is linked to the other PreApplications. These associated PreApplications must stand on their own merit, even though they could also be shown as an enhancement of the overall project.

G. PROJECT ADMINISTRATION

Grantees may use up to 10% of the total funds awarded for project administration. The State reserves the right to negotiate a percentage less than 10% for administrative costs if it determines the project can be successfully completed with a lesser amount for administration. In addition, up to 5% of the total grant award may be used for an indirect cost allocation otherwise not provided for in the direct cost items. For example, the pro rata share for an annual audit would be an indirect cost. All direct administrative cost items shall be itemized in the budget.

To ensure that the timely completion of projects and reporting requirements are met, 10% of the grantees administrative allocation will be withheld until the project is closed out. Allowable audit costs and related administrative expenses will be reimbursed up to the amount of administrative funds retained.

H. COMMUNITY ASSESSMENT

All final applicants are required to submit planning documents with the Final Application.

Entities submitting Final Applications under the Community Development, Technical Assistance, or Emergent Needs categories will simply need to provide documentation that the proposed project has been considered by the community and that the project was discussed at the public hearing required of all REDI applicants. (See Section I, Citizen Participation.) This abbreviated planning process is intended to promote better coordinated strategies for addressing local needs, particularly as they affect low and moderate income persons.

There is no one recommended procedure for preparing a community needs assessment. Examples of documentation that will satisfy this requirement for applicants under the Community Development, Technical Assistance, or Emergent Needs categories are:

- community survey;
- community-wide town meeting;
- community profile which identifies the proposed project;
- proposal from a short-term committee established specifically for this grant requirement, or;
- actual planning documents the applicant has prepared (e.g., comprehensive plans, community development objectives,)

H. COMMUNITY ASSESSMENT, Continued

The project proposed in the applicant's REDI Preapplication does not have to be the highest priority community need. There are a number of reasons, including the availability of other, more appropriate local, state or federal resources, which would justify submitting a REDI application for other than the top-ranked community need.

For entities applying for funding under the Economic Development grant category, the above requirements must be satisfied with the Final Application. Further, the applicant must include a description of needs with the Final Application, which summarizes:

- (a) The process used to identify community needs and establish priorities and objectives, including efforts to encourage meaningful participation of local citizens, particularly those of low and moderate incomes;
- (b) The planned activities to be taken to meet the identified needs; and
- (c) The alternative projects considered for REDI funding and the rationale for selecting the proposed project(s).

The needs assessment requirement can provide an opportunity to review existing capital improvements or economic development plans to determine if they still adequately reflect current conditions, needs and community goals.

A summary of the applicant's Community Needs Assessment must be submitted as part of the final REDI application for funding under the Economic Development category.

The needs assessment process does not have to be conducted annually for applicants applying for REDI funds if a previously prepared needs assessment still accurately reflects existing conditions and community development objectives and meets the requirements set out above. If an existing needs assessment will be used as the basis for application or, in the case of possible reapplication, the applicant should solicit public comment on the previously identified community needs and priorities at the public hearings required by Chapter I, Section I, Citizen Participation.

I. CITIZEN PARTICIPATION PLAN

Applicants must provide citizens, especially low and moderate income residents, an adequate opportunity for meaningful involvement in the planning and development of REDI applications. The following Citizen Participation Plan requires that:

1. The applicant must hold at least one public hearing. The purpose of the public hearing is to give citizens and potential beneficiaries of the proposed project adequate opportunity to review and comment on the community's REDI application, before it is submitted. The issues which should be considered include the proposed project location, activities, budget (including the estimated amount proposed to be used for activities that will benefit low- and moderate-income families), any costs to be imposed on residents as a result of the project (particularly those of low and moderate income), and, if appropriate, the plans of the applicant for minimizing displacement of persons, when applicable, as a result of activities funded with REDI funds;
2. The public hearing must be held not more than three months prior to the original submission date of the Preapplication. A record of the required hearings must be submitted with the Final Application for REDI funds, along with copies of the public notices for the hearings or affidavits of publication for the notices. A verbatim record is not necessary; the names of persons who attended and a summary of comments by local officials and citizens, or a tape of the proceedings, is sufficient (See Attachment G);
3. Technical assistance must be provided to persons who request assistance in developing or understanding proposals presented;
4. When requested and practicable, written response to written complaints and grievances regarding proposals must be given; and
5. When a significant number of non-English speaking residents are expected to participate, they must be assisted in understanding the public hearing proceedings.

J. RIGHT TO RENEGOTIATE

If funding from the state, federal, or other sources is withdrawn, reduced, or limited in any way after the effective date of the grant and before the completion of performance, the Department may terminate the grant. If the Department determines that it is in the best interests of the state, it may renegotiate the terms of the grant in accordance with the new funding limitations and conditions.

K. LEVERAGE

Leverage is a term used to refer to the participation and use of non-REDI resources in local REDI funded projects. With the limited State and federal funds available for support of local projects, it is in the best interest of the State, and Alaska communities, that applicants seek out and coordinate with other appropriate potential financial resources in order to increase the impact of their REDI projects upon local needs. In preparing the proposed budget for the Preapplication, the applicant should identify the sources and uses of funds and the amounts to be contributed by each financial source. Usually, an applicant that indicates participation of non-REDI dollars will be considered before an applicant requesting 100% funding of a project with all REDI dollars. The non-REDI funds may come from a variety of sources, such as bank loans, loans or grants from other State or federal agencies, or funds to be provided by the applicant.

Equipment and inkind services may apply as leveraging towards REDI funds. This would be contingent upon the proposed inkind or equipment costs being reasonable or verifiable. If an applicant's equipment costs are counted as leverage then operation and maintenance costs of the equipment are not allowable REDI grant costs.

Costs incurred prior to Preapplication, or the refinancing of existing debt will not be considered as leverage.

The ratio of non-REDI dollars to requested REDI dollars will be compared to other Preapplications submitted. A very low ratio may be less competitive; an excessively high ratio may indicate a questionably low level of need for REDI assistance. The Department would look for a base target of leveraging to start at one leveraged dollar to every five REDI dollars requested.

L. LOW AND MODERATE INCOME (LMI) PERSONS

The State of Alaska believes that those persons with low and moderate incomes as defined by the federal government suffer obvious economic hardships. Therefore, the State of Alaska requires that 60 percent of federal REDI funds must be used for activities that principally benefit low and moderate income persons and address the identified needs of the low and moderate income persons of the applicant's community.

To satisfy this requirement, the applicant must provide the following information on the Preapplication:

The community's total population.

The community's 1980 Census Median Income Level, which may be obtained from the chart at Appendix E. For those unincorporated communities not listed, use the dollar amount from the nearest incorporated community located to the applicant's community.

L. LOW AND MODERATE INCOME (LMI) PERSONS, Continued

If your overall community median income does not meet Low and Moderate Income levels, the Department will work with you to verify LMI individuals benefiting from the proposed project.

II. ELIGIBLE APPLICANTS

An eligible applicant is: any municipal government entity as defined by Title 29 of the Alaska Statutes, (i.e., home rule, 1st, 2nd, and 3rd class boroughs, unified municipalities, and 1st and 2nd class cities) which exercises powers consistent with the proposed project, and which is a non-entitlement jurisdiction as defined by the Federal Department of Housing and Urban Development; (i.e., all municipal jurisdictions except the Municipality of Anchorage may apply); or,

A village council organized under the Indian Reorganization Act, 25 USC-476; or a traditional village council. (An additional requirement of either council is that it must irrevocably waive any claim to sovereign immunity which might arise in connection with the use of grant money.); or,

A nonprofit corporation organized under A.S. 10.20.

The Department will prefer a municipal applicant over other applicants. While the Department may have this requirement, it is conceivable a project proposed by another eligible entity in a community could benefit that community. Therefore, if the Department sees the opportunity to bring together two or more sponsors for a project, thus ensuring the project a higher degree of success, the Department may propose a joint agreement between entities of a community. This flexibility would also provide for additional funding levels.

In the absence of a municipal applicant, the Department will have to make a decision on the most appropriate entity to apply for and administer a REDI project. For example, when there is more than one eligible entity in an unincorporated area the Department will need to identify the appropriate entity to apply for REDI funding. The most appropriate entity would be that entity which indicates a strong desire to serve the entire community. The same cooperative arrangement which allows for additional funding levels for incorporated areas would also apply to unincorporated areas with two or more eligible entities.

For-profit entities may apply in conjunction with municipalities or other eligible entities. See Appendix C for sample resolutions.

III. ELIGIBLE AND INELIGIBLE ACTIVITIES

A. ELIGIBLE ACTIVITIES

The following activities have been selected as State priority activities for funding from the Alaska REDI program:

1. Those projects which promote economic development in rural Alaska. In addition, those projects which provide assistance to private, for-profit entities, when the assistance is necessary or appropriate to carry out an economic development project will be considered. Assistance must be in conjunction with one of the entities detailed at Chapter II, Eligible Applicants. For projects involving a private, for-profit entity and a public entity, a Cooperative Agreement must be fully executed. (See Appendix A for example of Cooperative Agreement format.)

2. Those projects which promote economic development through improvements to the infrastructure of a community. Those projects listed under Community Development projects (See page 4) meet the State's priority as it relates to the development of infrastructure for economic development.

In rating applications, the state will give additional points to communities who choose activities that fall within the state priorities.

B. INELIGIBLE ACTIVITIES

1. GOVERNMENTAL OFFICE SPACE - Buildings or portions thereof, used predominantly for the general conduct of government cannot be assisted with REDI funds. These buildings include, but are not limited to: local governmental office buildings, police stations, courthouses, and other headquarters of government where the governing body meets regularly. If REDI funds are intended to be used in a facility which includes an ineligible use, refer to the paragraph below on multiple use buildings which contain both eligible and ineligible uses.

B. INELIGIBLE ACTIVITIES, Continued

2. MULTIPLE USE BUILDINGS - Public facilities which contain both eligible and ineligible uses may be partially funded. Funding may be provided for the eligible portion of a multiple use building containing ineligible uses if the following two conditions are met: (1) the eligible portion must occupy a designated and discrete area within a larger facility, and (2) the community must be able to demonstrate that it has adequate funds available to cover the pro rata share of the ineligible portion of the facility by providing documentation that they have committed funds for the ineligible portion.

3. GENERAL GOVERNMENT EXPENSES - Expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance with REDI funds.

4. MAINTENANCE AND OPERATION EXPENSES - The general rule is that any expenses associated with repairing, operating or maintaining public facilities, services, or equipment is ineligible. Examples of ineligible operating and maintenance expenses are: Maintenance and repair of streets, parks, playgrounds, water and sewer facilities, neighborhood facilities, senior centers, centers for the handicapped, parking, similar public facilities, and equipment.

5. FURNISHINGS AND PERSONAL PROPERTY - The purchase of equipment, fixtures, motor vehicles, furnishings, or other personal property not an integral structural fixture is generally ineligible unless:

- ° the purchase is necessary for use in grant administration;
- ° it is to be used for operation of a landfill;
- ° it is to be used as fire fighting equipment;
- ° it is necessary for the ongoing operation of a facility, such as manufacturing or processing equipment or appliances, or;
- ° it is to be used for maintaining streets, roads, dikes, ramps, or airports, or similar structures.

REDI funds may be used, however, to pay depreciation or use allowances for equipment (in accordance with OMB Circulars A-87 or A-122 as applicable), although the Department would expect an entity to offer their equipment as leverage. The Department does not want to purchase equipment if the equipment is not an integral part of the project being funded with REDI funds.

IV. PROGRAM INFORMATION

A. AGREEMENTS

Agreements must be signed by the highest elected official of the community (or communities if it is a Cooperative Agreement) and returned to DCRA within 2 weeks of receipt.

B. LENGTH OF PROJECT

Grants will be awarded for a single year. If necessary and allowable, grants may be extended for more than one year to complete projects.

C. PROGRAM INCOME

Program income is defined as the income earned by a REDI recipient or sub-recipient on REDI funds provided. For example, interest earned, user fees, or the sale of assets acquired with REDI funds would be program income. Recipients of REDI funds must report all program income earned on REDI funds, to DCRA when requesting payments. Loan repayments made by an entity when the loan was funded with REDI dollars is also defined as program income. Income generated by an entity assisted with REDI funds is not considered to be program income.

If program income is earned during the term of a project, it must either be: 1) added to funds committed to the project, after advising DCRA, and used to continue the activity from which such program income was derived, or, 2) it may be returned to the State. Program income received after a project is completed may be treated by a grantee as miscellaneous non-REDI revenue.

An applicant proposing to retain program income must submit, with its application, a plan for the ongoing use and financial administration of program income and must retain the following records of program income:

- ° sources of program income;
- ° dates and amount of program income deposits;
- ° interest earned;
- ° dates and amounts of all disbursement of program income; and
- ° the activities funded with program income.

In addition, communities that apply for subsequent REDI grants must retain these records. An entity may elect to return program income to the State, if it desires; or, if the entity determines it does not have the recordkeeping capabilities necessary to maintain adequate accounting for the retention of program income.

C. PROGRAM INCOME, Continued

Program income received after a project is completed is considered to be miscellaneous revenue and does not need to be reported to the Department. The one exception to this is if an entity were to receive another REDI grant before the first project was closed. If this were the case, then any program income generated by the first REDI grant would have to be used to support the second REDI project before additional REDI funds could be released.

D. SANCTIONS

The Department may bar a recipient from applying for REDI funds, withhold unallocated funds, require return of unexpended funds, require repayment of expended funds or require return of program income, if during the project period, the Department finds that:

1. None of the project activities has begun within six months after the grant award; or
2. Private party agreement is not legally binding within 6 months of the award; or
3. Federal or State statutory regulations have not been met; or
4. There is a significant deviation from the proposed activities at the time of or after funding; or
5. There has been a finding that significant corrective actions are necessary to protect the integrity of the project funds, and those corrective actions are not, or will not be, effected within a reasonable time.

No action will be taken by the Department until the recipient has been notified in writing and has been given a reasonable time to respond and correct the deficiencies noted.

E. RECORDKEEPING AND REPORTING

The community will maintain records specified in the contract and the regulations governing the program. These records will include information pertaining to environmental review, equal opportunity and labor standards, when applicable. They will also include information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays and income.

In addition to basic recordkeeping, communities will also be required to submit financial and progress reports/requests for funds as specified in the agreement, on forms provided by DCRA.

E. RECORDKEEPING AND REPORTING, Continued

These reports detail the status and progress of the local program. The reports allow the State to analyze the submitted data and assess the State's effectiveness in meeting program objectives and requirements, and can assist the State in future planning. The State will submit a comprehensive Annual Report to HUD based on this input as applicable. Through these various reports, information regarding the REDI program can be communicated to elected officials, public interest groups, and private citizens. Should a community fail to comply with reporting requirements, or should they fail to meet required progress in implementing their grant program, payments may be withheld, or the award withdrawn.

F. ACCESS TO RECORDS

The Department and other State and Federal officials authorized by the Department may examine, excerpt, or transcribe any pertinent records, documents, papers and books of the community, and of persons or organizations with which the community may contract, involving transactions related to the project and the contract.

G. MONITORING

DCRA Regional Office Staff will be responsible for the regular review of community performance in the proper management and use of CDBG funds. This monitoring will be performed on a periodic basis throughout the grant period and will involve telephone contact, written communications, analysis of reports and on-site visits when possible. It will be the purpose of this review process to reinforce, improve and augment the community's capacity to administer their project by identifying potential problem areas, and initiating corrective action to prevent deficiencies.

A monitoring letter outlining specific review findings will be sent to the community with recommendations reflecting corrective action required, if any, and a due date for the corrective action to be in place. When the Regional Office confirms that the appropriate corrective action has been taken, a letter shall be sent to the community stating that the finding(s) is closed.

H. RECAPTURED FUNDS

Recaptured funds are those which are returned to the State through close-out of a grant, termination for cause, or other means. Recaptured funds will be redistributed in a timely manner to qualified recipients for projects in all categories, according to the criteria used in the year the funds were awarded.

I. AUDITS

Recipients are responsible for having their projects audited for program and financial compliance. The recipients shall comply with the audit requirements established by 02 AAC 45.010, set forth in Appendix D; except that the minimum threshold triggering the audit requirements is \$25,000 if federal financial assistance of at least that amount is received in a program year. The Department will notify grantees as to whether federal funds were used to fund a project and the dollar amount of federal assistance.

Payment for the audit is an eligible expense which can be paid with REDI recipient's administrative funds. If the recipient has other funds which must also be audited, a pro rata share of the REDI funds may be used for the audit.

J. APPEALS

Appeals will be considered as follows: For Preapplications, any dispute considering a question of fact, which is not disposed of by mutual agreement, shall be decided without bias by the Director of the Rural Development Division. The decision shall be in writing and mailed or otherwise furnished to the applicant/ recipient. The decision of the Director is final and conclusive, unless, it is fraudulent or not supported by substantial evidence. In any proceeding under this section, the applicant/recipient has a right to offer evidence in support of its appeal. Pending final decision of a dispute, the recipient shall proceed with the performance of the contract in accordance with the Director's decision.

For Final Applications, any dispute considering a question of fact, which is not disposed of by mutual agreement, shall be decided without bias by the Commissioner of the Department of Community and Regional Affairs. The decision shall be in writing and mailed or otherwise furnished to the applicant/ recipient. The decision of the Commissioner is final and conclusive, unless, it is fraudulent or not supported by substantial evidence. In any proceeding under this section, the applicant/recipient has a right to offer evidence in support of its appeal. Pending final decision of a dispute, the recipient shall proceed with the performance of the contract in accordance with the Commissioner's decision.

K. AMENDMENTS

1. Project amendments - must have prior approval of the Division of Rural Development if they change the overall cost, scope, location, objectives, or time frame of the approved activities or beneficiaries. Failure to gain approval for amendments may result in sanctions.

The recipient may revise the project budget in the contract without a formal amendment, except the administrative line item amount. Such revisions are limited to a maximum of 10% of the total amount of this agreement or \$10,000, whichever is less over the entire term of the contract. Such budget revisions shall be limited to existing budget line items, and the creation of new budget line items which are within the scope of the project. Budget revisions may not be used to increase any budget item for project administrative expenses.

Changes to the budget beyond the limits authorized by this provision may only be made by a formal amendment to the award contract.

2. To the State REDI Plan - This plan can be amended at any time by the State. Notification of the proposed changes will be sent to affected parties at least 30 days before changes are final.

The Department of Community and Regional Affairs reserves the right to make administrative changes in this plan when laws which affect the management procedures change. These changes will not be considered an amendment.

L. WAIVER

The Director of the Division of Rural Development may waive non-statutory requirements.

M. ENVIRONMENTAL REVIEW

Grant recipients are required to obtain appropriate environmental clearances for their projects. An environmental checklist and environmental review statement will be provided by the Division of Rural Development, for those projects which have environmental concerns or impacts. The environmental review must be completed before costs are incurred.

N. PROGRAM SCHEDULE AND BUDGET

All recipients will be required to complete a program budget and work schedule.

V. APPLICATION INFORMATION-GENERAL

A. PREAPPLICATIONS

1. Preapplication may only be made on Rural Economic Development Initiative Program forms, or on a clear copy of these forms. Applicants must submit an original and five copies of all Preapplications and any attachments.

2. Preapplication forms must be completely filled out. Incomplete Preapplications will be returned to the applicant with a description of those items missing or incomplete. The Department, where appropriate, will offer technical assistance and may offer suggestions to correct problems with the application.

3. Two different Preapplications must be submitted for those projects which are requesting REDI funds from more than one funding category for the same project. For example, if funds are requested from the Economic Development/Infrastructure and the Community Development categories for the same project, then two different Preapplications would need to be submitted.

4. If a project is a multi-year project, or if it is anticipated that additional funds will be requested in following years to complete the project, this information must be indicated on the Preapplication.

5. If a project is for infrastructure, which is to be funded from the Economic Development funding category, then the linkage to a specific Economic Development project must be described.

6. The Preapplication must contain the following components; however, the Department reserves the right to request additional information if required. (See VI., E.) Forms and instructions for preparing Preapplications will be provided by the Department to all eligible jurisdictions and other interested persons. The components are:

a. Project Description - A project description should describe the existing conditions, the nature of the proposed project, and what the project will accomplish or resolve. To the greatest extent possible, the application should quantify the problem, the project and its impacts.

b. Proposed Budget - which identifies, specifically how requested REDI funds will be spent, as well as all other proposed funding sources. In addition, a proposed schedule for the project and the coordination of non-REDI resources for the project.

A. PREAPPLICATIONS, Continued

c. The applicant must also meet the following PREAPPLICATION REQUIREMENTS:

i.) Each applicant must address the objective of assisting low and moderate income persons. (See Chapter I, Section L, Low and Moderate Income Persons).

ii.) Each applicant must have, or demonstrate ability to secure, the administrative capacity necessary to undertake and complete the project. Experienced grantees can show past performance and existing mechanisms. If an applicant has unresolved audit findings from previous CDBG, RDA, or REDI grants, or if there is a record of poor performance in implementing other federal or State grants, the Department reserves the right to deny application funding.

If an applicant does not feel that it currently has the management capacity to manage a REDI grant, it may propose to hire administrative staff or arrange for project administration by another entity, after the grant award. In all cases, the applicant must assume direct responsibility for proper financial management of REDI funds awarded to it.

iii.) If applicable, the applicant must be prepared to provide documentation that other funds are available and sufficient to complete the project, if funding is approved. Additional points will be awarded if documentation is provided indicating commitment of non-REDI funds.

7. The Preapplication must be signed by the highest elected official for the applying entity or by all chief officials included in a Cooperative Agreement, this is to indicate the applicant's assurance of cooperation for and with the proposed project. If the Preapplication is approved, a formal resolution will need to be provided with the Final Application.

8. Completed Preapplication forms should be sent to the appropriate DCRA Regional Office. Reference Appendix F.

9. Preapplication forms for Community Development grants must be received during the period specified by the Department. Preapplication forms for Technical Assistance grants will be accepted on an ongoing basis.

10. Two or more eligible communities may join together and submit a single Preapplication. In such a case, the total amount of funding will be an amount equal to the combined funding as if each eligible community applied separately. If the Preapplication is accepted, a fully executed agreement between the communities involved must be submitted with the Final Application. Additional points are available to communities submitting joint applications.

11. The Preapplications will be reviewed by the Preapplication Review Committee (PARC) biweekly (every two weeks). All Preapplications are then processed accordingly.

12. The PARC will make one of the following decisions regarding the Preapplication:

- a. recommend to continue application process;
- b. recommend technical assistance to improve Preapplication information. Technical assistance may be provided by either Department staff, a recommendation to another agency, or a recommendation will be made to the Application Selection Committee (ASC) to award a grant for Technical Assistance, or;
- c. reject the Preapplication at this time and offer suggestions on how the Preapplication could be improved.

B. FINAL APPLICATIONS

The Final Application is an extension of the Preapplication submitted by the applicant. Once a Preapplication is approved by the PARC, REDI applicants must identify the source and provide supporting data for any claims made in the Preapplication. The lack of supporting documentation to substantiate information on the Preapplication will be sufficient grounds for the Department to reject a Final Application, and if justified, to withdraw a tentative award unless extenuating circumstances exist which are beyond the control of the community.

A Final Application for funding under the Community Development or Technical Assistance grant categories must also contain the following components; however, the Department reserves the right to request additional information if required.

B. FINAL APPLICATIONS, Continued

Forms and instructions for preparing Final Applications will be provided by the Department to those applicants with projects approved by the PARC.* The components are:

1. A Schedule for Project Implementation - The Schedule should identify the time frames for major activities and expenditures and, if applicable, the coordination of non-REDI resources for the project. Further, the applicant must commit to adhere to the schedule;

*If a component has been fulfilled to the applicant's satisfaction as a part of the Preapplication, the applicant should state this fact and reference the applicable page and section.

2. Project Description - A project description should describe the existing conditions, the nature of the proposed project, and what the project will accomplish or resolve. If not done on the Preapplication, the Final Application should quantify the problem, the project and its impacts.
3. Budget - Grant requests must be sufficient either as proposed, or in combination with non-REDI funding sources that the proposed project will be completed within the contract period. Each applicant must propose a budget which is sufficient to assure effective administration and timely project completion.

Costs must be fully supported and explained in a narrative justification, including sources and amounts of non-REDI funds. Documentation and firm commitments from other sources providing funds for the project must be included.

- a. Costs - The total budget of any proposed REDI project should be divided between "project costs" and "administrative costs." The administrative budget covers the costs of implementing a local project, the pro rata share of the local project audit; and other contractual costs for professional services that may be associated with administration of the project.

Administrative costs must be appropriate and commensurate with the project being undertaken. Any proposed administrative costs must be eligible, fully supported, and explained. In no case may the administrative budget for the grant exceed 15 percent of the total amount requested. (See Chapter I, Section G, Project Administration.)

Applicants which propose to contract for project management assistance must specifically itemize this amount in the administrative budget and fully explain it.

Under no circumstances are costs incurred prior to award of the grant eligible for reimbursement in the event of a grant award (i.e., fees for preparing an application; needs assessment; cost associated with conducting a local survey; and preliminary engineering studies.)

Applicants should be especially careful to see that all potential costs for carrying out the project are identified prior to submitting the Final Application. Consideration must be given to such costs as:

- ° future maintenance and operation costs;
- ° compliance with state and federal requirements;
- ° preparation of reports;
- ° bookkeeping;
- ° legal services;
- ° travel for REDI administration training or project related workshops;
- ° staff training;
- ° if applicable, conducting environmental review and publishing required public notices;
- ° appraisals;
- ° acquisition of land or easements for demonstrating site control;
- ° engineering or design costs;
- ° Davis-Bacon (prevailing wage) requirements which may increase construction costs;
- ° regulatory agency approvals (e.g., State Fire Marshal office, Department of Environmental Conservation, or Army Corps of Engineers);
- ° if applicable, relocation costs for displaced persons; and
- ° audit costs. (The Department recommends that applicants budget from \$3,000 to \$5,000 for a final project audit and a pro rata share of a state and/or federally mandated audit.)

- b. Narrative - The budget must be accompanied by a narrative justification for the specific proposed REDI project and related administrative costs, including a breakdown of total project costs which identifies sources and amount of all non-REDI funds to be used. The cost estimates for each item in the proposed budget must be explained in the narrative. For other sources of funds, the status of these funds and how they will be used with REDI funds needs also to be described.
4. Site Control - When a proposed project requires real property, verifiable documentary evidence of title or other sufficient interest in the land or facility to be used must be provided. Site Control is documented by a deed, a lease (usually for at least 20 years), an easement, or similar document allowing the proposed activity to occur. Communities will be given six months from the date of award to acquire site control unless extenuating circumstances which are beyond the control of the community exist, which are documented then approved by the Department. If this does not happen, awarded funds may be redistributed.
5. Resolution or Ordinance - The Final Application for REDI funds must be accompanied by a copy of a resolution or a motion duly adopted or passed as an official act by the applicant's governing body within three months of the date of the Final Application which:
- ° authorizes the submission of the Final Application;
 - ° states the applicant's willingness to abide by the REDI Statement of Assurances (Appendix B); and
 - ° authorizes the applicant's chief elected official to act on its behalf in regard to the application and to provide such additional information as may be required. A sample format resolution is included at Appendix C.
6. Cooperative Agreement - Applies only when two or more communities apply or a local government is applying for another agency or entity.
7. Certifications - All applicable regulatory agency approvals have been obtained, or are being processed by the appropriate agency. (e.g., State Fire Marshal approval of building plans, Department of Environmental Conservation approval of water and sewer connections or systems, Army Corps of Engineers approval of projects impacting wetlands, etc.)

7. Certifications, Continued

In addition, if applicable, the applicant must agree to comply with the federal and State requirements set out in Appendix B.

8. Community Assessment - The community must show what resources were used to set priorities in developing their Community Assessment in applying for their REDI grant and that the proposed project offers a solution to identified community need. (See Chapter I, Section H, Community Assessment for additional information.)
9. Citizen Participation - Citizen Participation must be documented by providing minutes of the hearings or council meetings where decisions about the project were made and a copy of the Public Notice provided. (See Chapter I Section I, Citizen Participation for additional information.)
10. An Application Selection Committee (ASC) will meet to review and recommend funding of those Final Applications that have provided the information requested above. The ASC will make one of the following decisions concerning the Final Applications:
 - a. to fund as requested, if at least a minimum score of 70 points was received;
 - b. to fund at a lesser amount, if at least a minimum score of 70 points was received;
 - c. offer a Technical Assistance grant to the entity, to enable the applicant to improve their Final Application, or when possible, direct them to a source of free technical assistance, or;
 - d. deny funding and suggest alternative funding sources, if available.

When c. is completed and the Final Application has been improved, the applicant must reactivate the Final Application, which may then be reviewed again by the ASC to be considered for funding.

Final Applications will be weighed against the criteria for the appropriate grant category and must obtain a score of at least 70 points to be considered for funding. Final Applications will not be weighed against each other.

VI. APPLICATION CRITERIA

A. GENERAL SELECTION CRITERIA

1. Detailed review of the Final Applications will be based on community need and the impact of the project.
2. In assessing need and impact, reviewers will consider the following factors in addition to the specific impact criteria:
 - a. extent and seriousness of identifiable needs;
 - b. results to be achieved;
 - c. number and percent of persons in the project area benefited, given the type of application;
 - d. nature of benefits;
 - e. the amount of funds requested;
 - f. previous actions taken by the applicant;
 - g. environmental concerns, if applicable; and
 - h. the nature of the activity.

B. RANKING SYSTEMS

Because of the problems faced by Alaska communities, the demand for funds from the old CDBG and RDA grant programs far exceeded the amount available. REDI ranking systems have been developed to provide an objective means to evaluate the degree to which a proposed project responds to the criteria of its type of project. Each of the project categories uses different criteria in order to provide measures which are appropriate to that category.

Applications for grant categories will be evaluated by applying the ranking criteria against proposed project activities. These criteria have been established to identify projects which are well planned and most clearly respond to the State and federal objectives of the REDI program. Those Final Applications assigned at least a minimum score of 70 points will be considered for funding.

C. PROJECT CATEGORY SELECTION

The selection of the appropriate project category is the applicant's responsibility. Local officials having any concern or questions regarding the proper category for the REDI project they are considering should contact the Department for guidance as early as possible in the application process. If a Pre-application is submitted under an inappropriate category, the Department reserves the right to review it under the proper category. If it is determined that it is appropriate to change the category of a Preapplication, the applicant will be notified.

D. POINTS ASSIGNED

Not all the criteria in each category are of equal importance. Each criterion has been assigned a number representing its relative priority or weight. By reviewing the criteria and weight in potential points assigned to them, applicants should have a better sense of the major issues involved in designing a competitive proposal and the relative effort which should be devoted to responding to each criterion. Any person with a question or concern regarding the ranking criteria should contact the Department's REDI staff prior to application.

The individual Preapplications submitted under each project category will vary depending upon the project activities proposed, the size and character of the entity applying, and each applicant's unique response to its community's specific needs. Because no purely quantitative measures exist which can anticipate the variety of potential community needs and all responses to them, the ranking must be, in part, subjective.

E. APPLICATION CONTENT

In general, information submitted by the applicant after the due date for Preapplications for Community Development grants will not be considered unless that information is specifically requested by the Department. As the other grant categories; Economic Development, Technical Assistance, and Emergent Need, all have open application cycles, information may be submitted at any time. Applicants are expected to keep the Department informed of any developments during the review process which would impact the funding for the project or adversely affect the viability of the proposed project. The Department may contact the applicant to obtain omitted information, to clarify issues, or to verify information contained in the application.

E. APPLICATION CONTENT, Continued

The Department may supplement application materials, as needed, by consulting public or private agencies knowledgeable about proposed projects or particular community problems. The Department will provide for outside technical review of applications by other public or private agencies or professionals when deemed necessary to assure adequate review. Site visits may be made to the proposed project area for the purpose of verifying or further evaluating information contained in an application.

VII. FINAL APPLICATION REVIEW PROCESS

A. EVALUATION

An Application Selection Committee (ASC) for each project category will be appointed by the Director of the Rural Development Division from state agency staff and outside experts. Final Applications will be evaluated by the ASC using the appropriate criteria and numerical point systems described in the REDI application guidelines. The ASC will recommend to the Director which Final Applications should be funded and appropriate funding levels.

B. RATING

After reviewing each Final Application and any technical review comments, the ASC will assess the degree to which the proposed project responds to each of the applicable criteria. Scores will be assigned according to the point values established for the criteria. The lack of response to a criterion will result in zero points. If the ASC determines that the applicant has inadequately documented specific statements made in responding to a criterion, it may assign the application a lower score than would otherwise have been assigned based on the statement itself. Likewise, numerical and percentage claims will only be accepted and considered valid to the extent to which they are clearly substantiated by accompanying documentation.

C. SELECTION

The ASC will submit their selections for grant awards to the Director for his approval, based upon the order of scores assigned by the ASC for the applicants in each category. The actual number and types of awards will be subject to funding availability, the amount of each applicant's request and the procedures set out for distribution of funds.

C. SELECTION, Continued

In the event of tie scores, projects will be selected on the basis of the Director's judgment of the overall quality of the proposed projects and their consistency with the goals and objectives of the REDI program.

VIII. COMMUNITY DEVELOPMENT RANKING SYSTEM

Points will be assigned depending on how well the following selection criteria is met:

1. The number of direct beneficiaries;	10 points
2. The cost of REDI dollars per direct beneficiary;	15 points
3. The ratio of REDI dollars to other federal and state grant funds;	15 points
4. The ratio of REDI dollars to local government, private and other non-governmental funds;	10 points
5. Degree of need demonstrated; (Factors to consider include: Nature and extent of problem, how long it has existed and past efforts.) and,	20 points
6. Degree of benefit anticipated. (Factors to consider include: Problem resolution, impact on community, importance to the community, degree of LMIs affected, and readiness to proceed.)	<u>30</u> points
TOTAL:	100 points

A Final Application must obtain a score of least 70 points from the ASC before the Final Application may be considered for funding.

IX. TECHNICAL ASSISTANCE RANKING SYSTEM

Points will be assigned depending on how well the following selection criteria is met:

1. Evaluation of the work program;	15
2. Urgency of need;	20
3. End product;	20
4. Percent of low and moderate income persons to be benefited (directly or indirectly); and	20
5. Explanation as to how funded program relates to an Economic Development project.	<u>25</u>
TOTAL:	100

A Final Application must obtain a score of least 70 points from the ASC before the Final Application may be considered for funding.

X. EMERGENT NEED

Selection in this category will be non-competitive. Qualifying applications will be funded until all the funds in this category are depleted. Qualification criteria include:

- a. Need for additional short term bridge financing is critical to continuation of the financing process;
- b. Emergency situations arising from the imposition of regulations affecting the project;
- c. Needs requiring special mitigation and amelioration such as a sudden change in market or supply conditions;
- d. Sudden and unplanned changes in insurance and bonding requirements, availability, and price;
- e. Complete resolution of an imminent threat can be achieved; and,
- f. Lack of other resources to meet the emergent need.

XI. ECONOMIC DEVELOPMENT PROGRAM AND RANKING SYSTEM

A. INTRODUCTION

This chapter outlines the process by which local governments, village or tribal councils, or non-profit corporations; either on their own or in partnership with private business, can benefit from public financing. The special requirements and ranking criteria which are applicable to REDI Economic Development applicants are detailed here. **THIS CHAPTER MUST BE READ IN CONJUNCTION WITH CHAPTERS I-X. WHICH APPLY TO ALL REDI APPLICATIONS.**

The Economic Development category of Alaska's REDI Program is designed to assist in providing incentives to stimulate new investment in order to expand, maintain or start local economic development activity with principal emphasis on assisting the private sector. These funds are intended to complement conventional business financing techniques and other federal programs such as the Economic Development Administration, Farmers Home Administration, and Small Business Administration. The REDI Program is also designed to complement the various other state programs offering assistance for economic development.

It is the goal of the Department of Community and Regional Affairs (DCRA) to use economic development grants (and in the future loans) to increase employment, benefit low and moderate income people, and enhance Alaska's economy. In order to accomplish these goals, a strategy is outlined below. Although these points will not necessarily be used to eliminate eligible projects, they do express the preference of the department and will weigh in favor of funding.

B. ELIGIBLE APPLICANTS

All entities detailed at Chapter II., Eligible Applicants may apply for funding under the Economic Development program. A business may not apply directly to DCRA. It must work with the appropriate local government body or appropriate council or nonprofit corporation. Both the Preapplication and Final Application must be submitted by the local jurisdiction or entity and be signed by the highest elected official for a city, council or nonprofit, or by a mayor of a borough.

In the case of a public/private project, a Cooperative Agreement must be in place.

C. NECESSARY OR APPROPRIATE

The State must determine that the amount of assistance requested is not excessive, taking into account both the actual needs of the business in making the project financially feasible and the extent of public benefit expected to be derived from the economic development project.

Documentation must be presented demonstrating analysis of the business need for assistance as well as public benefit factors, which should be considered in making a determination that the assistance is necessary or appropriate. The type of factors considered might include: the number and type of jobs to be made available in relation to the needs of persons of low and moderate income and others who are likely to be to be employed or retained for employment; other development which is likely to be stimulated in the area by the activity; increases to the tax base including property, sales and income taxes in the area; or increases in needed services which result from the activity.

D. ELIGIBLE ACTIVITIES

REDI Economic Development projects should be designed to create new employment opportunities or maintain existing employment, principally for low and moderate income persons and to provide long-term benefits to the state's economy. The REDI Economic Development program will be designed to assist businesses by making funds available to them. Presently, grants are only available, but in the future the Department anticipates establishing a loan program which will make loan funds available at reasonable interest rates.

Funds may be provided to purchase fixed assets. Not more than 25% of any project award may be used for working capital.

Typical eligible activities that fall within the REDI Economic Development category include:

- ° land acquisition; grantees may sell or lease the land to a business. If the land is sold to a business, it must be sold at no less than 75% of appraised value. Land may not be given to businesses;
- ° public facilities and other improvements in support of economic development, such as water and sewer lines, and access roads;
- ° acquisition, construction, rehabilitation or installation of commercial and industrial buildings, facilities or equipment;
- ° market research or availability;

D. ELIGIBLE ACTIVITIES, Continued

- ° working capital;
- ° employee training;
- ° manufacturing or other industrial production;
- ° retail businesses or food service facilities;
- ° convention facilities, trade centers and tourism facilities; or
- ° other activities which represent new technology or types of economic enterprises which meet community development needs and which diversify the economic base of an area.

For those projects which are for infrastructure which is related to an Economic Development project, this linkage to Economic Development must be detailed on the Preapplication.

Eligible use of REDI funds in assisting for-profit businesses may include grants, loans, loan guarantees or interest supplements, which are necessary or appropriate to carry out an economic development project.

Economic Development projects must also accomplish one or more of the following:

- ° Support projects that will increase the number of jobs in the State,
- ° Promote economic recovery in small communities heavily dependent on a single industry,
- ° Emphasize development in underdeveloped rural areas;
- ° Support the development of the State's small businesses, especially those owned by women and minorities;
- ° Encourage projects that assist businesses selling goods and services in markets for which national or international competition exists; and,
- ° Replace and/or compete with business products or services being imported into the state.

E. FUNDING

The maximum amount that may be awarded in a single grant in a program year (state fiscal year) is \$200,000. The State may offer an applicant a grant amount for less than the amount applied for.

Economic Development Preapplications may be submitted year round. By not restricting applications to a specific application period, communities will be able to respond to actual business cycles. Although funds may run out before the end of the grant year, local jurisdictions are well advised to prepare a complete and carefully compiled application. Rushing an application when business prospects are less than secure, greatly lessens the chance of funding.

Grantees may use grant funds to finance public improvements but the following conditions must be met:

It is the responsibility of the applicant to demonstrate that the business is in need of Economic Development funds in order to complete the project. The applicant is encouraged to work with DCRA staff to see that the development could not proceed but for an infusion of public dollars.

Projects that involve refinancing of existing debt are not eligible for funding. Neither does refinancing count as private leverage.

Businesses which are relocating within the State are generally not eligible for funding.

F. RANKING CRITERIA & SPECIAL REQUIREMENTS

Economic Development Preapplications will be evaluated according to the following criteria:

1. Rationale for selection of the project;	10 points
2. Project plan;	15 points
3. Project impact;	20 points
4. Leverage;	10 points
5. Hiring and training plan;	10 points
6. Benefit to Low and Moderate Income Persons; and	10 points
7. Project Management.	<u>25</u> points
Total	100 points

A Final Application must obtain a score of least 70 points from the ASC before the Final Application may be considered for funding.

1. RATIONALE FOR SELECTION OF THE PROJECT--10 Points

This criterion will consider the thoroughness of the applicant's:

- ° community needs assessment process;
- ° citizen participation efforts, especially involving low and moderate income residents; and
- ° local efforts to promote economic development.

Applicants will receive a higher score on this criterion if:

- ° there is evidence of active citizen participation, especially low and moderate income residents, in the development of the community needs assessment, in the selection of the proposed REDI project, and of the applicant's efforts to thoroughly address any potential impacts of the project on low and moderate income residents;
- ° the applicant has developed a complete, well-rounded, appropriate, and achievable plan for dealing with its total economic development needs, taking into consideration all available public and private resources and local capacity;
- ° the local governing body has officially adopted an economic development plan as a matter of public policy and the proposed program for which REDI funding is sought is an integral part of the plan;
- ° the community has made substantial local efforts to deal with its economic development problems;
- ° the proposed REDI project is realistic and workable, and the job savings or creation expected to result from its implementation will occur within a reasonable time following the date of grant award;
- ° the applicant has considered potential adverse economic impacts of the project on other similar local businesses, and;
- ° the project is appropriate and can be expected to proceed as planned.

2. PROJECT PLAN--15 Points

A. Uses of REDI Funds:

(1) Awards to For-Profit Entities (in conjunction with the eligible applicant)

For applicants involving grants or loans to for-profit entities, the business plan(s) will be analyzed on the basis of the:

- ° need for REDI assistance and the appropriateness of the proposed use of REDI funds;
- ° presented financial strength of the proposal;
- ° appropriateness of the proposed terms (e.g., security, interest rate, etc..) of any REDI funds loaned;
- ° past performance of the proposed firm or principals; and
- ° the level of local participation by the applicant community in the proposed project in relation to available local resources.

Federal regulations require the department to consider whether REDI assistance to any for-profit entity applying in conjunction with the eligible applicant is necessary or appropriate. Also included in the requirement is the need to determine the extent of need for assistance and the amount to be provided in relation to the public benefit that would result. Applicants must clearly demonstrate the need for REDI assistance by documenting that a financing gap exists in funding the project. Applicants must show that all reasonable resources have been considered and are not available or appropriate. A gap may be documented in a number of different ways including but not limited to the following:

- ° the early annual (first 3 years) earnings of the proposed project are not sufficient without REDI assistance to meet the annual debt service requirement of a loan at market rate;
- ° the firm to be assisted cannot contribute sufficient equity to the project to meet the collateral requirement of the first or second position lenders;
- ° the rate of return on the private sector investment in a project is not sufficient to provide a reasonable rate of return to investors;
- ° there is inadequate private lender financing available to invest in the project; or
- ° site development costs are beyond the means of private and public participants in the project.

(2) Assistance to Nonprofit Entities or Local Governments

For applications where facilities or activities are proposed that will remain the responsibility of the applicant local government or a nonprofit entity, the business plan will be analyzed on the basis of the:

- ° level of documentation demonstrating the ability of the facility or activity to support itself over time;
- ° need for REDI assistance;
- ° appropriateness of the proposed use of REDI funds; and
- ° in instances where the local government or nonprofit entity will assume an ongoing subsidy of the project, the level of subsidy and effect of the subsidy on local revenues and the anticipated long-term benefits of the project.

B. Business Plan Requirements:

Each applicant must submit a business plan for each firm or entity to receive assistance, whether for-profit or non-profit. Each business plan must contain sufficient information for the Department's selection committees to obtain an adequate understanding of the firm to be assisted, including the products or services offered, estimated market potential, management experience of principals, current financial posture, and details of the proposed venture.

Applications involving more than one business will require a longer review period. Each business included in an application will be evaluated and rated separately. An application will be more competitive if all businesses proposed are financially strong individually. An otherwise strong application could be less competitive if a weak business is included.

NOTE: ALL BUSINESS PLAN INFORMATION AND FINANCIAL EXHIBITS WILL BE CONSIDERED CONFIDENTIAL, FOR EVALUATION PURPOSES ONLY, AND WILL NOT, EXCEPT AS REQUIRED BY LAW, BE PROVIDED TO ANY THIRD PERSON, FIRM, CORPORATION OR PUBLIC ENTITY WITHOUT THE EXPRESS WRITTEN CONSENT OF THE BUSINESS.

The business plan must include the following elements:

(1) Business Description

Include a description of the company or enterprise and an explanation of the products or services offered.

(2) Management

Provide the names, titles and resumes of each of the principals to be responsible for the management of the business.

(3) Market

Discuss the present or proposed market area and share, as well as future projections, and provide an explanation of how the information was developed (for example, market surveys or research). Document any identified potential markets (for example, contracts, letters or other evidence of interest in the product[s] by potential buyers or distributors), especially if sales projections show annual increases exceeding 25%.

(4) Sources and Uses of All Funding

This section would discuss the source, use and terms of all funds to be included in the project.

No award may be made directly to for-profit entities. The REDI portion of the project may include a loan to a private sector firm with terms to be negotiated by the local government and the assisted entity, subject to approval by the Department of Community and Regional Affairs. A description of all aspects of the proposed assistance (i.e., loan terms, security, etc..) and the rationale for each must be included with the application.

All loans are subject to the following guidelines:

(a) Loan Terms

The terms of the loan should be consistent with the projected use of funds, and individual project needs. For example, terms for financing machinery and equipment should generally be between 5 and 10 years. For buildings and real estate, terms should generally range between 15 and 20 years. Working capital loans should be limited to 10 years.

(b) Deferral of Repayments

Repayments of principal, interest, or both may be deferred up to three years.

(c) Loan Security

All loans must be secured with fixed assets (i.e., land, buildings, and capital equipment) and/or personal guarantees. REDI funds may be placed in a subordinated security position to other lenders involved in the project. Applicants must include documentation for the value of collateral offered for security and a description of all security positions held by lenders.

(d) Interest Rates

Interest rates are negotiable but, at a minimum, should not be lower than either the lesser of five percent, or 50 percent of the rate for U.S. Treasury Bonds of like or similar maturity to the terms of the proposed REDI loan, on the date 15 days prior to the preapplication deadline. Lower interest rates may be considered by the department if it can be conclusively demonstrated that a lower rate is essential to the economic viability of the project.

(5) Financial Exhibits

The business plan must include the following financial exhibits:

(a) Financial Statements

For existing businesses, provide financial statements for the three most recent years of operation to include the following:

- ° Balance Sheet;
- ° Profit and Loss Statements;
- ° Cash Flow Statement; and
- ° Reconciliation of Net Worth.

Audited or reviewed financial statements with full disclosure notes are preferred. (If not reviewed by independent accountants, then supported by copies of federal tax returns.) Financial statements should also include a current Aging of Accounts of Receivable and Payable.

(b) Earnings Projections

Provide the following projections for three years:

- ° Balance Sheet;
- ° Profit and Loss Statement; and
- ° Cash Flow Statement.

Earnings projections must include a projected monthly cash flow analysis for one year. For businesses that experience regular or occasional cyclical variations in cash flow, provide a narrative explanation of the reason(s) for the occurrence of the cycles and the effect, if any, on the business's ability to meet its debt obligations identified in the existing and projected debt schedules.

(c) Debt Schedule

Provide descriptions of all existing and projected debts and lenders, annual debt service amounts, and any related loan requirements.

(d) Working Capital Needs

Provide information on working capital needs and verify through cash flow projections showing changes in inventory and receivables.

(e) Personal Balance Sheet

Provide personal balance sheet for each individual with 10 percent or more ownership in the projected project.

The business must be able to show that projected cash flow will be sufficient to cover projected debt service and that a positive net worth can be maintained. The projections must include a narrative explanation of how the figures and assumptions were derived with special emphasis on any changes in major assumptions from existing conditions (i.e., changes in cost of goods sold and general administrative expenses as a percentage of sales, or if sales increases exceed 25% annually). Special care should be taken to include increased labor costs related to achieving the hiring goals contained in the Hiring and Training Plan.

Applicants should include any other information which may be helpful in documenting the economic viability of the project.

(6) Private Sector Commitments

Final Applicants must provide firm commitment letters from any private sector lenders or investors involved in the project.

Letters of commitment from firms to be assisted should be submitted with the preapplication and must:

- ° be on letterhead of the firm and signed by an official of the firm authorized to commit the organization;
- ° provide a clear statement of the firm's concept of the project, (i.e., the location, scope and cost);
- ° specify the nature of the commitment, (e.g., amount of private commitment, amount of borrower's commitment, type and size of the project, number of jobs to be created, commitment to hire low and moderate income individuals, etc...); and
- ° state a willingness of the firm to sign a legally binding commitment upon grant award.

NOTE: LETTERS OF COMMITMENT FROM PRIVATE FINANCING INSTITUTIONS MUST ALSO BE SUBMITTED AND MUST SPECIFY THE AMOUNT AND TYPE (FOR EXAMPLE, INTERIM CONSTRUCTION FINANCING) OF THE LOAN BEING PROVIDED FOR THE SPECIFIC ACTIVITY TO BE UNDERTAKEN. THE COMMITMENT SHOULD BE BINDING, CONTINGENT ONLY UPON RECEIPT OF REDI FUNDS.

(7) Public Sector Commitments

If resources from the public sector or nonprofit entities are to be involved in the proposed economic development project, Final Applications must provide written evidence of firm commitment of public funds and/or other resources. Such commitments should be binding, contingent only upon receipt of REDI funds. Evidence should include resolutions passed by the local governing body and/or a letter of commitment from other sources.

Applicants will likely receive a higher score on this criterion if:

- ° the Final Application is complete as submitted, and contains accurate information;
- ° the earnings projections submitted with the Final Application are realistic and attainable and are supported by historical trends and indicate that projected cash flow is sufficient to support increased debt;
- ° if applicable, the REDI assistance would be adequately secured with fixed assets and/or personal guarantees;

- ° the Final Application documents a sound, well thought out proposal with a perceived strong chance for success if REDI funds are received;
- ° the private or public sector lenders involved in the project have provided firm public commitment of funds; and
- ° the Final Application conclusively demonstrates that the project will support itself over time, and will not impose a burden on any local government or nonprofit entity participating in the project.

Final Applications which document a sound, well-reasoned proposal will be awarded a higher score in this category. Applications where viability may be questionable, or where the overall business plan or need for REDI assistance is inadequately documented, will receive a lower score. The Department may request outside assistance in evaluating this criterion.

3. PROJECT IMPACT--20 Points

Federal regulations require the department to consider the amount of the REDI assistance to be provided in relation to the public benefit that would result.

A. Jobs Created / Retained

This factor will be assessed by dividing the total number of permanent full-time or full-time equivalent jobs to be directly created or retained by the assisted enterprise into the total amount of the non-administrative REDI funds requested. This ratio will be evaluated against the type of job(s) created, the amount of non-REDI funds contributed to the project, the potential for long-term growth of the assisted firm, and the ratio of REDI dollars to the number of current positions the assisted enterprise presently has.

Therefore, the following ratios and/or assessments will be made, where applicable, to determine the proposed project's impact:

- a. Total number of jobs to be created or retained, will be divided into the total amount of REDI funds received for the project. The amount of REDI funds used in this calculation will be those funds specifically for the project, those funds for administration of the project will not be used in this calculation.

b. The types of jobs to be created or retained will be evaluated (e.g., are the jobs proposed seasonal, part-time, or full-time, and are the jobs to be created or retained the type that do not have difficult entrance requirements).

c. The number and types of positions impacted by the proposed project will be compared to the amount of non-REDI funds also brought to the project by the applicant.

d. The possibility of the proposed new or assisted positions being retained and the assisted enterprise being able to continue operating after REDI funds are expended will be expended.

e. The ratio of REDI dollars to the number of current positions the assisted enterprise presently has working for it will also be evaluated.

B. Economic Impact

This factor considers both the direct and indirect economic benefits the REDI project is expected to produce including:

a. whether the firm to be assisted is a "basic industry", an "import substitution activity", or an activity which involves the "distribution of Alaska-made goods", as defined by the Made In Alaska program.

b. whether the project involves the processing, refining, marketing, and innovative use and promotion of Alaska's natural resources;

c. the size of the additional payroll expected to be generated from the jobs created or retained in relation to the size of the community;

d. the total number of jobs created or retained in relation to the existing employment base;

e. the amount of local property taxes generated by the construction of new facilities, expansion of or improvements to existing facilities, preserved by retaining an existing facility as compared to the local government's existing tax base, or loss of tax base, if an existing facility or parcel of land will be turned over to a government activity or if moved out of the applicant community to an adjacent jurisdiction; and

B. Economic Impact, Continued

f. the indirect effects of the activity on the surrounding community such as benefits provided to related businesses or the importance of the assisted firm to the local trade area and the number of indirect jobs that are expected to be created as a result of the proposed project.

Proposals that encourage the relocation of a business from one Alaska community to another will be disqualified unless the applicant can demonstrate the existence of unusual or extenuating circumstances that would justify the relocation.

A higher score on this criterion would likely result when:

- ° the proposed project is consistent with the community's economic development strategy;
- ° the applicant has demonstrated that the firm to be assisted has a high potential for growth and future job creation;
- ° the applicant has clearly justified the claimed number of indirect jobs to be created as a result of the project;
- ° the economic development activity proposed would foster the creation or saving of permanent full-time employment for persons of low and moderate income, which offers those workers opportunity for advancement;
- ° the applicant has demonstrated that a high level of positive economic benefit to the community will likely result; and
- ° the applicant has considered potential adverse economic impacts of the project on other similar local businesses.

4. Leverage--10 Points

In preparing its project budget, the applicant is required to identify the sources and uses of funds and the amounts to be contributed by each financial source. To be eligible for consideration, an applicant must assure the participation of at least one, non-REDI dollar for each five dollars of non-administrative REDI Economic Development funds requested (a 1:5 leverage ratio). The non-REDI funds may come from a variety of sources, such as new investment by a firm to be assisted, bank loans, loans to be repaid to a another state or federal loan program or grants.

Increased owner equity resulting from the proposed business expansion, existing fixed assets or investments made prior to grant application will not be counted toward this requirement. Existing equipment, inkind services, costs incurred prior to grant application, or the refinancing of existing debt will not be considered as match.

The ratio of new investment to non-administrative REDI dollars will be compared to other preapplications submitted for the competition. A very low ratio may be less competitive; an excessively high ratio may indicate a questionably low level of need for REDI assistance.

A higher score on this criterion would likely result when:

- ° the applicant has demonstrated that the level of REDI and non-REDI investment is appropriate and reasonable for the type of jobs to be created or retained;
- ° leverage funds are predominately private sector investment through bank loans and other state and federal guaranteed loans rather than grants;
- ° the applicant has demonstrated a high ratio of private investment in relation to REDI dollars requested, and;
- ° when a high ratio of equivalent full-time jobs versus REDI funds requested is present or anticipated.

5. HIRING AND TRAINING PLAN--10 Points

The primary goal of REDI-funded economic development grants is to increase job opportunities for local residents, particularly persons of low and moderate income.

Final Applications must propose methods to ensure preferential recruitment, hiring, and training of local workers, particularly those of low and moderate income. In the event of grant award, the applicant's commitment to the hiring plan will be considered binding and will be incorporated in the grant agreement between the local governing body and the department. Hiring goals should be reasonable and justified by the financial statements and projections. Claims for the number of jobs to be created or retained should be realistic and not inflated or overly optimistic. The assistance agreement between the community and the assisted entity must contain conditions regarding the hiring of low and moderate income persons. The assisted entity must show substantial compliance with the hiring and training plan and a "good faith" effort towards accomplishing the hiring goals set out in the assistance agreement before the project can be closed out. In order to comply with federal requirements, the department must ensure that performance goals are achieved; therefore, the assistance agreement will contain a penalty clause for noncompliance with the hiring and training plan which could result in recovery of grant funds from the assisted entity or the recipient community.

Assistance in the development of a hiring and training plan may be obtained from the local Job Service and the department's Regional Offices. A base level of employment must be provided in order to determine the actual number of new hires. For existing firms, applicants should provide employment levels for the past three years. The date for determining the base level of employees will be December 31, 1987.

Applicants should take into consideration equal opportunity and nondiscrimination laws to ensure that women and minorities are not excluded from participation, denied the benefit of, or subjected to discrimination under any program or activity funded in whole or part with REDI funds.

Applicants who work with their local JTPA program and are willing to consider JTPA eligible persons as their first source when hiring will automatically receive eight points on the rating for this criterion.

An acceptable hiring and training plan should contain the following:

- a. A breakdown of jobs to be created or retained, indicating the percentages which are full-time, part-time, skilled, semiskilled, or unskilled;

b. A discussion of the actions to be taken to ensure that the positions created will be made available to persons of low and moderate income;

c. A breakdown of jobs to be created indicating the job titles and descriptions and the rates of compensation. For applications proposing positions involving less than full-time employment, an estimate of the number of hours to be worked each week or months to be worked each year for each position must be included;

d. A timetable for creating the jobs, the total number of persons, and number of low and moderate income persons to be hired. The department will use the number of jobs to be created or retained within a period of three years from the date of grant award as the basis of comparison between preapplications.

e. An assurance that equal opportunity and nondiscrimination laws will be complied with;

f. Procedures for outreach, recruitment, screening, selection, training and placement of workers which will ensure maximum access for local residents, particularly persons of low and moderate income;

g. A description of the training curriculum and resources, if applicable;

h. Written commitments from any agencies or organizations participating in the implementation of the plan, including this department's own JTPA program; and

i. Written commitment from the assisted entity to comply with the plan.

Minimum job requirements should not exceed the equivalent of a high school education in order to be counted as a job opening available to low and moderate income persons. If job qualification requirements exceed the equivalent of a high school education, training can be provided to enable otherwise unqualified persons to qualify for the position. The jobs that are to be created must be physically accessible to the low and moderate income population within a reasonable geographic area. Consult with department staff if uncertain whether a job to be created would be considered available to low and moderate income persons.

The following factors will be considered for this criterion:

° the completeness, clarity, and feasibility of the hiring and training plan;

- ° the timetable for creating jobs and hiring workers in relation to the projected growth of the business;
- ° the degree to which the plan responds to the needs of low and moderate income person; and
- ° whether the applicant has taken into consideration equal opportunity and nondiscrimination laws to ensure and document that women and members of protected minority groups will not be excluded from participation in program benefits;

A higher score on this criterion would likely result when:

- ° the number of jobs proposed to be created or retained appears realistic and reasonable, based on the business plan and other information contained in the preapplication;
- ° a firm commitment to follow the plan has been obtained from each business expected to benefit directly from the REDI assistance;
- ° the applicant's hiring and training plan provides clear, complete procedures for outreach, recruitment, screening, selection, training and placement of workers which will ensure maximum access for local residents, particularly persons of low and moderate income, to jobs created or saved by the project;
- ° the applicant has contacted the local Job Service, Regional Office JTPA program person or other appropriate agencies to provide assistance in the implementation of the hiring plan;
- ° attention has been given to necessary supportive services for trainees needing them;
- ° a complete training curriculum has been developed and all training resources identified; and
- ° responsibility has been assigned for all phases of the program and all necessary personnel and funding commitments have been received, contingent only upon receipt of REDI funds.

6. PERCENT OF JOBS TO BENEFIT LOW AND MODERATE INCOME PERSONS-- 10 POINTS

In order to be eligible for REDI assistance, the applicant must demonstrate that a minimum of 60 percent of the jobs directly created or retained by an economic development project will be available for low and moderate income persons or be made available to low and moderate income persons through special training planned as part of the project.

The focus of the REDI economic development program is to create or retain employment opportunities for low and moderate income persons, not to create or retain low and moderate income jobs.

The program's goal is to increase the opportunity for low and moderate income Alaskans to better their employment situations and income levels. Applicants must include a letter from each business to be assisted indicating that firm's commitment to hiring low and moderate income individuals to fulfill this requirement.

The department will use full-time annual equivalent positions as the basis for ranking. If part-time or seasonal employment is proposed, the preapplication must include an estimate of the number of hours to be worked each week or the number of months to be worked each year for each proposed position. Only jobs that are created during the first three years of the project will be counted towards this requirement.

To determine this score, the number of full-time annual equivalent jobs to be created or retained and made available to low and moderate income persons will be divided by the total number of jobs to be created or retained as a result of the REDI project.

Remember: To be eligible for consideration a project must demonstrate at least 60 percent benefit factor for low and moderate income persons.

7. PROJECT MANAGEMENT--25 POINTS

This criterion will assess the soundness and appropriateness of the applicant's plan for assuring proper short and long-term management of the REDI project, including financial management of grant funds, compliance with state and federal requirements, effective and timely start-up and completion of project activities, and the proposed use of any program income (i.e., loan repayments) generated by the project.

A higher score on this criterion would likely result when:

- ° the applicant has demonstrated that the activities are feasible and achievable, taking into consideration the size and resources of the community and the budget and work schedule proposed, and can be conducted consistent with applicable state and federal requirements;
- ° the applicant has described how funding from various sources will be coordinated and directed;
- ° the applicant has demonstrated adequate pre-planning to ensure that project activities can commence quickly if funds are awarded and that firm commitments exist for the other resources to be involved in the project;
- ° the applicant has addressed potential environmental concerns and there appear to be no significant problems;
- ° the applicant has identified (or developed position descriptions for) the person or persons who will be responsible for day-to-day grant management or has identified any contracted services to be utilized in carrying out the project;
- ° the applicant has considered the assistance agreement to be entered into between the local government and the firm to be assisted, including items such as performance standards, methods for monitoring compliance, and actions that may be taken if the assisted firm is unable to meet the terms of the REDI assistance;
- ° if the applicant has under the former CDBG or RDA grant programs, had above average or superior project management responsibilities; and
- ° if program income is proposed to be retained locally, the applicant has developed a sound plan for the use and administration of any program income which will result from the project, such as, funding additional economic development projects.

F. FEDERAL & STATE REGULATIONS

To a private business person, many of the federal and state regulations associated with the program may seem more applicable to traditional public sector projects. However, it is the responsibility of all REDI grant applicants to comply with applicable federal and state laws, executive orders and regulations affecting their projects. (The major federal requirements which may apply are listed in Appendix B, Statement of Assurance.) These requirements address issues such as financial management, labor practices, environmental impacts, civil rights, fair housing and acquisition and relocation. Compliance with these and other requirements will become specific conditions of the grant contract between the department and the grant recipient. Certain requirements will also apply to the agreement between the local government and any business or agency which will receive REDI assistance through a loan or grant.

Applicants should carefully review these requirements and consider their potential impacts when designing their REDI project. These laws can have an affect on the costs and complexity of the project and the schedule for completion. Applicants should also be aware that it will take at least two months before any funds will actually be received, if after the Preapplication is accepted and the decision is made to fund the Final Application. This delay occurs because several activities must take place in the interim. For example, the contract between the grantee and the department must be prepared, and if applicable, the grantee must conduct a review of environmental factors, and all details for assuring proper management of the project and the expenditure of public funds must be completed.

G. DAVIS-BACON REQUIREMENTS

Federal Davis-Bacon and the state's "mini Davis-Bacon" wage and labor requirements should be given careful consideration when planning REDI-funded projects. Projects which involve construction, remodeling, site development, major equipment installation or other similar activity which involves the use of contracted labor and services may have to comply with Davis-Bacon requirements. The additional costs associated with Davis-Bacon wage rates should be considered when calculating project costs and when obtaining estimates from potential contractors.

In a recent U.S. Department of Justice ruling regarding Davis-Bacon coverage of projects funded partially or in total by Title I funds, the following specific applications were given:

1. Real property acquisition-federal funds financing of land acquisition clearly does not require payment of Davis-Bacon wages for those employed in privately-funded construction on the site.

2. Purchase of equipment, machinery and fixtures to be installed- the use of federal funds to purchase materials equipment, machinery, or other fixtures installed during the construction work does not trigger Davis-Bacon coverage when no federal funds are used to pay for the construction work itself.

3. Purchase of materials- Materials to be incorporated in construction constitute part of the construction work and their financing with Federal funds triggers Davis-Bacon applicability; however, where materials have an independent use so that "installation" most accurately describes their introduction into the structure, the DOJ opinion indicates that, as with machinery and equipment, their mere purchase with federal funds does not trigger Davis-Bacon requirements

4. Architectural and Engineering fees- under the DOJ ruling federal financing of architectural and engineering services does not trigger Davis-Bacon requirements.

5. Other services (legal, accounting, construction management, etc.)- federal financing of such other services does not trigger Davis-Bacon wage requirements.

6. Other nonconstruction items; e.g. furniture purchases business licenses, and real estate taxes, including tenant allowances for such items- federal financing of tenant allowances for purchasing furniture and obtaining business licenses does not trigger Davis-Bacon requirements, and does not impose those requirements when federal funds are used to pay for any activity other than construction work.

Additionally, Davis-Bacon wage rates would not apply in cases where: A contractor that bids successfully on the project is a sole proprietor and the work will be performed entirely by the owner, without additional employees (sole proprietors must submit documentation indicating they are the owners.

Davis-Bacon wage rates also do not apply to the assisted entity's existing work force or to newly hired low and moderate income persons when they are occupied at their regular duties as described in their regular job description. When applying for assistance, an entity may plan to utilize its existing labor force for minor, incidental work on project activities only when no separate contracts to perform the work involved for the project activities are entered into by the entity. The laborers cannot conduct work that is required to be done by licensed or certified persons (e.g., electricians, carpenters or plumbers).

Determining the applicability of Davis-Bacon wage rates to your REDI project can be complex. Contact the department's regional office staff during the planning stages of a proposed project for guidance and assistance.

XII. DEFINITIONS

AWARD:

REDI funds given as either a grant or a loan.

COOPERATIVE AGREEMENT:

A Cooperative Agreement is intended to provide a vehicle for eligible and ineligible applicants to work together to apply for grant funds. For example, a borough may submit an application for a community within its jurisdiction for a project. The borough must possess the statutory powers to provide the services envisioned for the completed project.

Also, an eligible jurisdiction may apply for a grant which another eligible or ineligible applicant may operate or administer, if a Cooperative Agreement is formalized outlining each entity's responsibility.

FIRM PRIVATE COMMITMENT:

An agreement by a private party taking part in the Rural Economic Development Initiative program to carry out an activity specified in the grant application. The private party must document that they have the level of equity necessary to carry out the activity. Finally, the private party must actually demonstrate that the necessary money and resources have been committed for the project.

FIRM PUBLIC COMMITMENT:

An agreement by a public party taking part in the Rural Economic Development Initiative Program to carry out the activities specified in the grant application. The party must commit all necessary resources to the program. The commitment may take the form of a local government resolution, a Cooperative Agreement, or a letter from a federal or state agency.

INFRASTRUCTURE:

"Infrastructure" shall refer to the following categories of public facilities:

(a) Public Utilities including water and sewage, electrical intertie and fuel/gas distribution systems;

(b) Transportation including local service roads and trails, airport improvement, barge, and subsistence access;

(more)

(c) Fixed Plant, including manufacturing facilities, transmitters, generators, etc.; and

(d) Buildings and Structures including storage facilities, warehouses, aircraft facilities, fire stations, docks, clinics, daycare facilities, etc.

LEVERAGE:

Funds used in conjunction with a REDI grant to increase the amount of available resources for a project are considered "leveraged funds." These may include public and private funds, services, materials, labor, or other items related to the project. Program Income may be counted if the intent is to use it for community development purposes. The amount of leverage must be given in dollars.

LOW AND MODERATE INCOME:

The State of Alaska has chosen as a priority the federal objective to provide the maximum benefit to low and moderate income (LMI) persons. To meet this objective, each applicant must demonstrate how the community's project will benefit low and moderate income persons. The following guidelines will be used in determining, on a case-by-case basis, projects which benefit low and moderate income households using the HUD Section 8 income definition: (See Appendix E for Low and Moderate Income information.)

COMMUNITY-WIDE BENEFIT

The project which benefits the community as a whole also benefits low and moderate income families, providing that the median family income for the community falls below the income limits established by the census area; or

AREA BENEFIT:

The project serves an area where at least 60 percent of the residents are low and moderate income persons and provides services for such persons.

PROGRAM INCOME:

Funds derived from reimbursement of REDI funds are considered program income to the project, to the extent the costs were initially paid with REDI funds. Examples include (but are not limited to): economic development loan repayments and interest earnings; proceeds from the disposition of real property; and proceeds from special assessments. Income generated by an entity assisted with REDI funds is not considered to be program income.

PUBLIC / PRIVATE:

The process by which local governments in partnership with private business, join together to develop, fund and benefit from a development activity.

APPENDICES

- APPENDIX A Cooperative Agreements
- APPENDIX B Environmental Review Record and Statement of Assurance
- APPENDIX C Sample Resolutions for Submission of Final Application
- APPENDIX D State Audit Regulations
- APPENDIX E Low and Moderate Income Chart for Communities
- APPENDIX F DCRA Regional Office Locations and Contact Information
- APPENDIX G Citizen Participation Plan Assurance

APPENDIX A Cooperative Agreements

RESOLUTION REGARDING A COOPERATIVE AGREEMENT BETWEEN
A COMMUNITY AND A FOR-PROFIT ENTITY

AN AGREEMENT BETWEEN THE _____¹
AND THE _____²

WHEREAS, _____¹ and/or ² (has, have)
identified need in the community to expand economic
opportunities, and

WHEREAS, _____¹ contemplates
submitting (on behalf of)(jointly with) _____²
an application for REDI Grant funding from the Alaska
Department of Community and Regional Affairs for the purposes
of economic development, and

NOW, THEREFORE, it is mutually agreed, on this _____ day
of _____ 198____, between the _____¹
and the _____² as follows:

The areas this agreement will need to cover are those that REDI
grant funds will be used for.

Suggestions are:

Site control,
Expansion, or
Increased employment.

Also, the amount of the for-profit's contribution, access to
records, nondiscrimination of amendments to the agreement will
need to be addressed by this agreement.

It also will need to be signed by both parties to the agreement.

-
- (1) Name of applicant or organization
 - (2) Name of for-profit entity
 - (3) Type of business for-profit entity is engaged in, or pro-
poses to enter into
 - (4) Date of agreement

Resolution; Cooperative Agreement
between Two Entities, Same Community
Page 2

Nothing contained in this agreement shall deprive any municipality of any power or zoning, development control or other lawful authority which it presently possesses.

PASSED AND APPROVED BY THE _____

(5)

on _____ (2) _____, 19 _____ (2) _____.

IN WITNESS THERETO:

By: _____ (6) _____
Signature and title

Attest: _____ (7) _____
Signature and title

REPEATED FOR EACH PARTY TO THE AGREEMENT

-
- (1) Number of resolution
 - (2) Date resolution adopted
 - (3) Name of parties involved
 - (4) Name of lead applicant
 - (5) Governing body of the organization (Council, Assembly, Board of Directors)
 - (6) Chief Administrative Officer (Mayor, Manager, President)
 - (7) Secretary of Clerk of the Organization
 - (8) Individual who will be responsible for the application

APPENDIX B Environmental Review Record
 and Statement of Assurance

APPENDIX B

Each applicant must agree to comply with all applicable State and federal laws and regulations in implementing their proposed REDI project, if it is selected to submit a Final Application.

Projects that clearly will have little impact on the environment are either exempted or categorically excluded from most environmental requirements. If a project is selected to submit a Final Application, an Environmental Review Record must be prepared to document the applicant's determination, even for those projects that are exempt. If a project is determined to be exempt from all federal requirements, no further review is necessary. (The Environmental Review Record will be provided with the Final Application.)

The types of projects² and related costs which are exempt from federal laws and regulations are:

- ° environmental studies;
- ° planning or management studies (i.e., technical assistance grants);
- ° administrative costs;
- ° reasonable project and engineering studies and/or costs incurred for a proposed activity;
- ° interim assistance activity related to relief of imminent threats to health and safety, if the assisted activities do not alter environmental conditions and are for temporary or permanent improvements limited to protection, repair, or restoration actions necessary only to control or arrest the effects of imminent threats or physical deterioration;
- ° federal loan repayments under Section 108 of Title I, or;
- ° activities for public services, but only under the following circumstances:
 - a) funds would not result in the development of service facilities or physical improvements regardless of the source of funds, or;
 - b) the services funded affect only the social or economic environment.

There also are some projects which are categorically excluded from the National Environmental Protection Act (NEPA) requirements. A project that is categorically excluded from adhering to the NEPA requirements may or may not have to comply with other State and federal laws and requirements. Therefore, the Environmental Review Record must be completed to determine if other requirements need to be complied with.

Those types of projects which are categorically excluded from NEPA requirements are:

- ° facilities to be acquired are in place and will be retained in the same use;
- ° facilities will replace or upgrade existing ones with only a minimal change in use, size, capacity, or location;
- ° the project will not change the use, size, capacity, or character of the site;
- ° the project involves fire protection equipment;
- ° the project will reduce or eliminate material and architectural barriers (REDI funds can be used to fund this type of project in general government offices);
- ° proposed rehabilitation of a property that will not increase urban density by more than 20%, and will not change land use, zoning, or residential class, or;
- ° proposed rehabilitation of a property that will cost less than 75% of the estimated cost of replacement.

If a final applicant determines on the Environmental Review Record that either the proposed project is not categorically excluded from the NEPA requirements, or that some or all of the other federal requirements listed below must be complied with, then the following documents must be completed and submitted with the Final Application. Those documents are; Statement of Assurance, an Environmental Assessment, a Finding of No Significant Impact, and a Notice of Intent to Request Release of Funds. The Department will provide these documents to those Final Applicants whose Environmental Review Record indicates they are necessary.

The additional State and federal requirements which apply to projects using REDI funds cover a wide range of issues including environmental impacts, labor standards, employment practices, financial procedures, and civil rights. If the Environmental Review Record indicates the need to comply with these additional requirements, it can have an affect on the costs or complexity of project implementation. The additional requirements are:

- a. Wage Rate provisions of the Davis-Bacon Act, as amended.
- b. Copeland "Anti-Kickback" Act.
- c. Title IV of The Lead-Based Paint Poisoning Prevention Act (prohibiting the use of lead-based paint in residential structures constructed or rehabilitated with Federal (REDI) assistance).
- d. Contract Work Hours and Safety Standards Act (CWHSSA).
- e. Title VI of the Civil Rights Act of 1964, and HUD regulations.

Additional State and federal requirements, continued:

- f. Title VIII of the Civil Rights Act of 1968, as amended.
- g. Section 109 of the Housing and Community Development Act of 1974, as amended, which requires no person be denied benefits from any activity funded with REDI funds.
- h. The Age Discrimination Act of 1975, as amended.
- i. Section 504 of the Rehabilitation Act of 1973 (Section 109).
- j. Executive Order 11063 (as amended by Executive Order 12259), which prohibits any person from discriminating against any person when renting or selling housing funded with federal (REDI) funds.
- k. Section 3 of the Housing and Urban Development Act of 1968, as amended, which notes that to the greatest extent feasible, opportunities for training and employment be given to low- and moderate-income persons residing in the immediate area. Further, that to the greatest extent feasible, contracts for work in connection with a project be awarded to eligible business concerns either located in, or owned by persons living in the immediate area.
- l. National Historic Preservation Act of 1966, as amended.
- m. Executive Order 11593, Protection and Enhancement of the Cultural Environment.
- n. State Fire Marshal approval of all building plans for renovation or construction.
- o. Site control demonstrated, if applicable (i.e., having ownership or a legal right to use the land on which to use the land on which the project is to be located).
- p. Department of Environmental Conservation approval of water and sewer connections, upgrades or construction projects.

APPENDIX C Sample Resolutions for Submission
of Final Applications

REDI RESOLUTION FOR TRIBAL ENTITIES
(TRADITIONAL AND I.R.A. COUNCILS)

RESOLUTION NUMBER _____ 1

A RESOLUTION of the _____ 2 authorizing participation in the Rural Economic Development Initiative Grant (REDI) program and providing for waiver of sovereign immunity from legal prosecution by the State for claims which may arise from the utilization of said grant.

WHEREAS, the _____ 2 wishes to provide a _____ 3 for use in the community; and WHEREAS, this tribal council is an applicant for a grant in the amount of \$ _____ 4 from the Alaska Department of Community and Regional Affairs (hereinafter "Department"), under the REDI program; and WHEREAS, the Department requires as a condition of the grant that an Alaska Native Village Tribal or IRA governing body waive sovereign immunity from legal prosecution for claims by the State which may arise from its activities under the grant.

NOW THEREFORE BE IT RESOLVED THAT: The _____ 5 is authorized to negotiate and execute any and all documents required for granting and managing funds on behalf of this entity. The _____ 5 is also authorized to execute any subsequent amendments to said grant agreement to provide for adjustments to the project within the scope of services or tasks, based upon the needs of the project.

BE IT FURTHER RESOLVED THAT: This Alaska Native Village, acting through its _____ 2 hereby grants to the State of Alaska its irrevocable consent to be sued in the name of the Native Village for any unlawful act arising out of any contractual obligation from execution of judgments obtained pursuant to the above against any property whether real or personal, including money, provided that such execution of judgment not exceed \$ _____ 4.

PASSED AND APPROVED BY THE _____ 6
ON _____, 19____. 7

IN WITNESS THERETO:

BY: _____ 5
Signature and title

ATTEST: _____ 8
Signature and title

-
- 1 Number of the resolution
 - 2 Name of applicant
 - 3 Description of community project
 - 4 Amount of REDI funds requested
 - 5 Chief Administrative Officer (Chief, President)
 - 6 Governing body (Council, Board of Directors)
 - 7 Date resolution was adopted
 - 8 Clerk or secretary of the organization

REDI RESOLUTION FOR APPLICANTS THAT ARE A
BOROUGH, CITY OR NON-PROFIT CORPORATION

RESOLUTION NUMBER _____ 1

A RESOLUTION of the _____ 2 authorizing participation in the Rural Economic Development Initiative Grant (REDI) program.

WHEREAS, the _____ 2 wishes to provide a _____ 3 for use in the community; and WHEREAS, this organization is an applicant for a grant in the amount of \$ _____ 4 from the Alaska Department of Community and Regional Affairs (hereinafter "Department"), under the REDI program;

NOW THEREFORE BE IT RESOLVED THAT: the _____ 5 of the _____ 2 is hereby authorized to negotiate and execute any and all documents required for granting and managing funds on behalf of this organization.

The _____ 5 is also authorized to execute any subsequent amendments to said grant agreement to provide for adjustments to the project within the scope of services or tasks, based upon the needs of the project.

PASSED AND APPROVED BY THE _____ 6
on _____, 198__.

IN WITNESS THERETO:

BY: _____ 5
Signature and title

ATTEST: _____ 8
Signature and title

-
- 1 Number of the resolution
 - 2 Name of applicant organization
 - 3 Description of community project
 - 4 Amount of REDI funds requested
 - 5 Chief administrative officer (Mayor, Manager, President)
 - 6 Governing body of the organization (Council, Assembly, Board of Directors)
 - 7 Date resolution was adopted
 - 8 Secretary or Clerk of the organization

APPENDIX D State Audit Regulations

Register 95/
October, 1985

Administration

2AAC 45.010

2 AAC is amended by adding a new chapter to read:

CHAPTER 45. GRANT ADMINISTRATION.

Section

10. Audit Requirements

02 AAC 45.010. AUDIT REQUIREMENTS. (a) As part of the financial information required under AS 37.05.030, a state agency that enters into a financial assistance agreement to provide financial assistance to an entity shall, in coordination with any other state agencies providing financial assistance to that entity, submit to the Department of Administration through the state coordinating agency an audit of the recipient entity if that entity is subject to audit under (b) of this section. The audit must be conducted and submitted as described in this section. In order to ensure compliance with this subsection, the audit requirements of this section must be contained in any financial assistance agreement entered into by a state agency.

(b) An entity that enters into an financial assistance agreement, or agreements, with a cumulative total of

(1) \$300,000 or more during a state fiscal year shall submit to the state coordinating agency, within one year after the end of the audit period, an annual audit report covering the audit period; or

(2) at least \$100,000 but less than \$300,000 during each of two consecutive state fiscal years shall submit to the state coordinating agency

(A) a biennial audit report covering the audit period, due within one year after the end of the audit period; or

(B) if the recipient entity chooses, or the state requests, an annual audit report covering the audit period, due within one year after the end of the audit period.

(c) An audit required by this section must be conducted by an independent auditor, according to the following audit standards:

(1) Standards for Audit of Governmental Organizations, Programs, Activities and Functions, 1981 revision adopted by the comptroller general of the United States; or

(2) generally accepted auditing standards, as accepted by the American Institute of Certified Public Accountants on July 1, 1985, for the entity being audited.

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(d) The audit report required under (b) of this section must address the following:

(1) the systems of internal control, and whether the recipient entity has effective control over, and proper accounting for, revenues, expenditures, assets, and liabilities;

(2) the systems established to ensure compliance with state statutes and regulations, and applicable financial assistance agreements, affecting the expenditure of state money, and whether the recipient entity has complied with those statutes, regulations, and agreements;

(3) the recipient entity's financial transactions, financial statements, and accounts; whether those financial statements are presented fairly in accordance with generally accepted accounting principles; and whether the financial statements contain reliable financial data presented in accordance with applicable financial assistance agreements.

(e) An audit report required under (b) of this section need not evaluate the effectiveness of a program funded by state financial assistance. However, a program evaluation may be conducted or requested by the state agency which entered into the financial assistance agreement.

(f) An audit required by this section must cover either the entire operations of the recipient entity, or at the option of that entity, only the departments, agencies, or establishments of that entity which received, expended, or otherwise administered state financial assistance during the audit period. The state coordinating agency may consider a series of audits of a recipient entity's individual departments, agencies, or establishments for the same fiscal year as a single audit.

(g) A recipient entity shall provide the state coordinating agency with sufficient copies of each audit report to allow submission of a copy to each state agency providing financial assistance to the entity. The state coordinating agency shall determine if auditing standards have been met and will forward a copy of the audit to the Department of Administration and other appropriate state agencies. The state coordinating agency shall coordinate resolution of audit exceptions and further audit work in accordance with (h) of this section.

(h) Unless additional audit requirements are imposed by state or federal law, a state agency that provides financial assistance to any entity shall accept the audit required by this section in satisfaction of any other audit requirement. If additional audit work is necessary to meet the needs of a state agency, the audit work must be based on the audit required by this section and be paid for by the state agency. Audit exceptions noted during an audit required by this section must be resolved by agreement between the

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recipient entity and the state agency responsible for the financial assistance award agreement involved.

(i) A third party that receives financial assistance through a recipient entity, in an amount described in (b) of this section, is subject to the applicable requirements of the section. A recipient entity that disburses \$100,000 or more in state financial assistance to a third party shall ensure that the third party complies with the requirements of this section. That recipient entity shall also ensure that appropriate corrective action is taken within six months after a third party's noncompliance with an applicable state statute or regulation, or financial assistance agreement, is disclosed.

(j) This section takes effect on August 1, 1985 for an entity subject to audit under (b) (1) of this section and whose fiscal year ends on or after June 30, 1986.

(k) This section takes effect on July 1, 1986 for an entity subject to audit under (b) (2) of this section and whose fiscal year ends on or after June 30, 1987.

(l) For purposes of this section, if an entity has not identified its fiscal year, that entity's fiscal year is July 1 through June 30.

(m) For purposes of this section,

(1) "audit period" means

(A) for an annual audit under (b)(1) of this section, the recipient entity's fiscal year in which the entity entered into the financial assistance agreement or agreements;

(B) for a biennial audit under (b)(2)(A) of this section, the recipient entity's two consecutive fiscal years in which the entity entered into the financial assistance agreement or agreements;

(C) for an annual audit under (b)(2)(B) of this section, the recipient entity's fiscal year in which the entity entered into the financial assistance agreement or agreements;

(2) "entity" does not include the University of Alaska or any other state agency;

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October, 1985

2AAC 45.010

(3) "financial assistance" means state grants, contracts, provider agreements, cooperative agreements, and all forms of state financial assistance to an entity, and includes all forms of state financial assistance provided through an entity to a third party; "financial assistance" does not include public assistance provided under AS 47; nor does "financial assistance" include goods or services purchased for the direct administration or operation of state government; for a third party, "financial assistance" does not include goods purchased from the third party by a recipient entity for the direct administration or operation of the recipient entity;

(4) "state coordinating agency" means the Office of Management and Budget, (OMB), Office of the Governor, or OMB's designee. (Eff. 8/1/85, Register 95)

Authority: AS 37.05.020
AS 37.05.030
AS 37.05.190

APPENDIX E Low and Moderate Income Chart
For Communities

APPENDIX E

Low and Moderate Income Determination

(See comments on Page #4)

<u>INCORPORATED PLACES</u>	<u>Average Median Income Per Household</u>
[Unincorporated communities are to use the dollar amount from the nearest incorporated community located to the applicant's community.]	
Akhiok	\$ 9,063
Akiachak	21,071
Akiak	4,926
Akutan	5,833
Alakanuk	10,721
Aleknagik	33,282
Allakaket	10,536
Ambler	12,083
Anaktuvuk Pass	7,361
Anderson	34,532
Angoon	14,464
Aniak	14,750
Anvik	6,429
Atmautluak	6,094
Barrow	34,458
Bethel	22,468
Brevig Mission	9,844
Buckland	11,375
Chefornak	11,667
Chevak	14,375
Chuathbaluk	4,375
Clark's Point	25,000
Cordova	27,147
Craig	20,156
Deering	11,875
Delta Junction	16,458
Dillingham	27,292
Diomedes	3,281
Eagle	6,154
Eek	11,250
Ekwok	9,792
Elim	9,583
Emmonak	6,375

<u>INCORPORATED PLACES</u>	<u>Average Median Income Per Household</u>
Fairbanks	21,184
Fortuna Ledge	13,839
Fort Yukon	11,406
Galena	20,500
Gambell	8,409
Golovin	9,063
Goodnews Bay	12,083
Grayling	9,821
Haines	21,307
Holy Cross	6,667
Homer	21,843
Hoonah	17,708
Hooper Bay	13,558
Houston	17,083
Hughes	8,750
Huslia	6,538
Hydaburg	15,208
Juneau	30,872
Kachemak	31,580
Kake	20,750
Kaktovik	42,265
Kaltag	6,648
Kasaan	26,250
Kenai	31,129
Ketchikan	24,825
Kiana	18,750
King Cove	21,518
Kivalina	8,304
Klawock	25,694
Kobuk	3,000
Kodiak	30,512
Kotlik	18,750
Kotzebue	23,371
Koyuk	12,500
Koyukuk	6,667
Kupreanof	18,438
Kwethluk	10,417
Larsen Bay	17,000
Lower Kalskag	5,673
McGrath	21,944
Manokotak	31,320
Mekoryuk	9,479
Mountain Village	18,750

INCORPORATED PLACESAverage Median
Income Per
Household

Napakiak	9,792
Napaskiak	11,094
Nenana	21,250
Newhalen	11,875
New Stuyahok	17,000
Newtok	25,000
Nightmute	8,750
Nikolai	5,000
Nome	23,500
Nondalton	18,000
Noorvik	15,000
North Pole	24,907
Nuiqsut	28,125
Nulato	12,813
Old Harbor	7,062
Ouzinkie	18,750
Palmer	19,960
Pelican	21,923
Petersburg	25,094
Pilot Station	8,482
Platinum	17,500
Point Hope	23,929
Port Alexander	13,958
Port Heiden	16,250
Port Lions	17,813
Quinhagak	10,375
Ruby	8,438
Russian Mission	25,000
St. Mary's	9,750
St. Michael	10,714
St. Paul	22,813
Sand Point	30,648
Savoonga	7,813
Saxman	31,119
Scammon Bay	12,344
Selawik	9,750
Seldovia	17,778
Seward	19,817
Shageluk	4,028
Shaktoolik	8,333
Sheldon Point	8,500

INCORPORATED PLACESAverage Median
Income Per
Household

Shismaref	11,563
Shungnak	18,750
Sitka	31,133
Skagway	33,929
Soldotna	25,176
Stebbins	13,036
Tanana	15,000
Teller	8,182
Tenakee Springs	9,583
Togiak	12,917
Toksook Bay	13,636
Tuluksak	7,159
Tununak	9,667
Unalakleet	12,083
Unalaska	24,375
Upper Kalskag	6,563
Valdez	40,778
Wainwright	35,000
Wales	3,854
Wasilla	22,439
White Mountain	9,107
Whittier	18,750
Wrangell	25,064
Yakutat	20,278

COMMENTS:

If the dollar amount stated for your community or area is BELOW \$30,400; then you have satisfied the Low and Moderate Income requirement. State this on the Preapplication and list the dollar amount specific to your community or area.

If the dollar amount stated for your community or area is ABOVE \$30,400; then the following justification will need to be completed by those individuals that will benefit from the proposed project:

"Is your total family income greater than \$30,400, check either YES ____, or NO ____."

APPENDIX F DCRA Regional Office Locations and
Contact Information

APPENDIX F

REGIONAL OFFICE CONTACTS

ANCHORAGE

Leslie Toombs 563-1955
DCRA
Rural Development Division
949 E. 36th Ave., Suite 400
Anchorage, AK 99508

BETHEL

Duane Wise 543-3864
P.O. Box 348
Bethel, AK 99559 B&C Complex, Room 210

DILLINGHAM

Bobby Andrew 842-2245
P.O. Box 10041
Dillingham AK 99576 New Choggiung Bldg.

FAIRBANKS

Jo Cooper 465-1505
DCRA
1001 Noble St. Suite 430
Fairbanks, AK 99701

JUNEAU

Brenda Knapp 465-4890
DCRA, RDD
P.O. Box BC
Juneau, AK 99811 190 E. 3rd St. Room 109

KODIAK

Tom Peterson 486-5736
710 Mill Bay Road
Kodiak, AK 99615

KOTZEBUE

Sophie Ferguson 442-3675
P.O. Box 350
Kotzebue, AK 99752 Drift Inn, 2nd floor

NOME

Bobby Walsh 443-2274
P.O. Box 41
Nome, AK 99762 Old Federal Bldg.
2nd floor

APPENDIX G Citizen Participation Plan Assurance

CITIZEN PARTICIPATION PLAN

ASSURANCE OF COMPLIANCE

REDI Grant applicants must provide citizens, especially low and moderate income residents, an adequate opportunity for meaningful involvement in the planning and development of REDI applications. The following Citizen Participation Plan requires that:

- 1.) The applicant must hold at least one public hearing, not more than three months prior to the original submission date of the preapplication. The purpose of the public hearing is to give citizens and potential beneficiaries of the proposed project adequate opportunity to review and comment on the community's REDI application, before it is submitted. The issues which should be considered include the proposed project location, activities, budget (including the estimated amount proposed to be used for activities that will benefit low- and moderate-income families), any costs to be imposed on residents as a result of the project (particularly those of low and moderate income), and, if appropriate, the plans of the applicant for minimizing displacement of persons, when applicable, as a result of activities funded with REDI funds;
- 2.) A record of the required hearings must be submitted with the Final Application for REDI funds, along with copies of the public notices for the hearings or affidavits of publication for the notices. A verbatim record is not necessary; the names of persons who attended and a summary of comments by local officials and citizens or a tape of the proceedings, is sufficient;
- 3.) Technical assistance must be provided to persons who request assistance in developing or understanding proposals presented;
- 4.) When requested and practicable, written response to written complaints and grievances regarding proposals must be given; and
- 5.) When a significant number of non-English speaking residents are expected to participate, they must be assisted in understanding the public hearing proceedings.

I, _____, _____, of the _____
Name Title Entity
do hereby certify compliance with the provisions of the Citizen Participation
Plan outlined above:

Signature

Date



Rural Economic Development Initiative
Grant Program
Preapplication Form



Name and Address of Sponsoring Entity:

Date Received By DCRA

Contact Person:

Phone Number:

Project Title and Description:

(attach additional sheets)

Type of Application:

Economic Development _____

Community Development _____

Technical Assistance _____

(A separate Preapplication must be submitted for each category)

Proposed Budget: (identify proposed funding source for each line item)

Line Item	Budget (\$)	Funding Source
Labor		
Materials		
Design		
Equipment Rental		
Contractual		
Administration		
Other		
Indirect		

Proposed Project Start Date: _____

Proposed Project Completion Date: _____

Signature of Authorized Official _____

Official's Title _____ Date _____

Note: Signing this Preapplication only indicates the entity's assurance of cooperation for and with this proposed project. If the Preapplication is approved, a formal resolution will need to be provided with the Final Application.

PREAPPLICATION REQUIREMENTS FOR ALL GRANT CATEGORIES

Each applicant must meet the following general requirements before being considered for funding. The requirements are:

- 1.) Each applicant must address the Alaska and National Objective of assisting low and moderate income persons. (This will be done by comparing your community's 1980 Census Median Income Level, which is provided, to the federally designated median income level for Alaska. If your overall community median income level does not meet low and moderate income levels, the Department of Community and Regional Affairs will work with you to verify low and moderate income levels of individuals to benefit from the proposed project.)
- 2.) Each applicant must have, or demonstrate ability to secure, the administrative capacity necessary to undertake and complete the project. Experienced grantees can show past performance and existing mechanisms. If an applicant has unresolved audit findings from previous CDBG, RDA, or REDI grants, or if there is a record of poor performance in implementing other federal or state grants, the Department of Community and Regional Affairs reserves the right to deny application funding.
- 3.) If applicable, the applicant must be prepared to provide documentation that other funds are available and sufficient to complete the project, if REDI funding is approved. Additional points will be awarded if documentation is provided indicating commitment of non-REDI funds.

If a Preapplication is approved, the Final Application will have to indicate the following:

- 1.) A schedule of project implementation and the applicant must commit to adhere to schedule.
- 2.) Detailed project description, if not done on the Preapplication.
- 3.) Budget and detailed narrative.
- 4.) If applicable, site control demonstrated.
- 5.) Resolution or an ordinance adopted or passed as an official act by the applicant's governing body.
- 6.) If applicable, a cooperative agreement when two or more communities apply, or a local government is applying with another agency or entity.
- 7.) All applicable regulatory agency approvals have been obtained, or are being processed.
- 8.) Community assessment, the community must show what resources were used to set priorities during the assessment and that the proposed project offers a solution to an identified community need.
- 9.) Citizen Participation must be indicated by providing minutes of the hearing or council meeting where decisions about the project were made.

A CONCEPT PAPER

Conversion of Institutionally Owned
Real Estate for Public Use

Glenda J. Straube
February 1988

There have been numerous public discussions recently relating to the conversion of institutionally owned real estate (REOs) for public purpose projects. Primarily, these conversions would be centered around a group home or clustered housing concept and would be used for low-income, student, senior or transitional housing.

These conversions would be used for public projects which would not normally have been created, offered, or supplied by the private sector. Homeowners and landlords will realize the benefits of removing these properties from the market through the eventual stabilization of the value of the remaining housing stock.

The execution of such a concept, however, is not feasible within present financial structures. Private lenders or investors cannot be expected to make these projects viable and federal funds for such projects are limited. Thus, it is state government which becomes the appropriate and, ultimately, the last resort for the source of funds.

With statutory and regulatory changes, the Alaska Housing Finance Corporation (AHFC) could become the conduit for such public use conversion of REOs.

EXECUTION

1. AHFC would purchase loans made to non-profit organizations and state entities for multi-unit projects which would be used for the public good. Multi-units would be described as any property consisting of three or more units. Entire condominium projects need to be included in this description, even though they are, presently, individually owned.

Consideration could be made to whether or not the state might include private developers as borrowers in this scenario.

2. Funds for these loans would be provided through the issuance of bonds. Direct appropriations from AHFC could be used to take any additional REO loss not agreed to by mortgage insurers, in order to make the purchase costs of the project feasible. The direct appropriation clause would be available only if AHFC felt that it was cost-effective in the long run to buy down the purchase price.
3. Owner occupied restrictions would be waived for these projects.

4. The costs of rehabilitation/renovation of these properties would be included in the loan. Many of these buildings would need some adaptations for their new use.
5. Loans would be available for only REO properties held by a state entity or, in the case of condominium projects, where the majority of the institutionally owned units are held by some combination of state entities. Again, the private sector will eventually benefit from the decreased supply and subsequent increase in value of multi-unit and condominium housing.
6. AHFC would establish the interest rate of these loans at 5% less than the cost of funds of any bond issue, with a 6% interest rate floor. If private developers were included in the description for borrower eligibility, this subsidy would need to be analyzed from a public policy standpoint.
7. AHFC would establish a lease/purchase program under the same restrictions and guidelines as those mentioned above.

THE FOCUS ON CONDOMINIUMS

In ISER's October 1987 report on Alaska's Economy and Housing Market, it was estimated that the holding costs of a typical condominium unit could equal \$7,000 per year. If you add to that the 20-25% decrease in value between 1987 and 1986, it becomes an expensive proposition for any investor or insurer to hold these properties.

Though AHFC has thus far suffered little financial loss on condominium loans, due to PMI and pool policies, they may face direct losses in the future if the condominium market is not stabilized. Mortgage insurance pool policies are not a bottomless pit.

Projections show that there is a 10 year excess supply of condos in Anchorage alone. Though this concept will not completely solve that problem, it is certainly a move in the right direction. ISER's abovementioned report clearly outlines the consequences of inaction.

CONCLUSION

With the largest residential portfolios being held by state entities, the State of Alaska has the ability to take steps to positively affect the housing market. The plan outlined in this paper affords the state an opportunity to provide its people with a better quality of life through social and economic policies aimed at stabilizing the market.

F.D.I.C. FINDS WAYS TO SELL AILING ASSETS

New York Times Article--2/22/88

By Nathaniel C. Nash

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

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

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

A Savior for F.D.I.C.

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

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

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

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

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

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

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

Troubled Assets Soar

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

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

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

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

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

Something Instead of Nothing

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

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

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

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

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

The Need for Cash

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

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

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

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

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

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

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

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

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

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

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

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES - Division of Land and Water Management

TO: Margaret J. Hayes
Director

DATE: February 24, 1988

FILE NO:

TELEPHONE NO: 762-2680

THRU:

SUBJECT: Federal Real Property
and Loan Assumptions

FROM: Gary Gustafson, Chief
Land Management

Gus

According to recent press accounts, the Federal Deposit Insurance Corporation (FDIC) assumed almost \$245 million in loans from the recent closure of First Interstate Bank of Alaska and Alaska National Bank of the North. Coupled with the increased pace of foreclosures initiated by the Federal Housing Administration (FHA), the Alaska real estate market is threatened by devaluation, should the FDIC and FHA proceed to sell these loans or property at liquidation prices over the near term.

I realize the Alaska State Legislature is currently exploring options which might alleviate the situation. Some members of the legislature apparently wrote the FDIC regional office in San Francisco, offering to help with any plan that might prevent large-scale sales of land and offered to work together to find an equitable solution as speedily as possible. The legislature is also debating whether or not to pay \$250,000 to complete an appraisal of some of these properties.

After reading these reports, I began to conceptualize a scenario which might help resolve this problem. It entails the conversion of one million acres (or less) of the state's remaining general grant land entitlement (Section 6(b) of the Alaska Statehood Act) to acre-equivalents which would then be convertible to dollar equivalents. These dollar-equivalents could then be used to acquire the federal loans or property from FDIC and FHA on a value for value basis. In other words, \$250,000,000 of dollar-equivalents could be exchanged for \$250,000,000 worth of federal loans or property in Alaska.

This proposal would require the approval of the U.S. Congress as it alters the provisions of the Alaska Statehood Act. However, there is already precedence for this type of legislation. In 1982, the Alaska Railroad Transfer Act was passed by Congress (PL 97-468). It included a provision to allow Cook Inlet Region, Inc. (CIRI), an Alaska Native regional corporation, to convert part of its land entitlement to acre-equivalents which could be used to bid on properties excessed by the General Services Administration (GSA) anywhere in the country. CIRI was able to convince Congress to allow it to receive \$500/acre for its

in-region entitlement lands and \$250/acre for its out-of-region lands. Using these acre-equivalents, CIRI has since obtained an impressive portfolio of federal surplus properties at GSA auctions across the United States. At this time, CIRI has used more than 130,000 acres of its out-of-region entitlement (acre-equivalents) to acquire more than \$70 million worth of surplus federal property in the lower 49 states.

There are several reasons why it makes sense to contemplate the conversion of some of the state's remaining general grant land entitlement to acre-equivalents. The state's total general grant land entitlement is about 102.5 million acres, of which the state has been conveyed about 81 million acres. Therefore, the state has more than 20 million acres yet to acquire. However, the available federal land from which we must chose this land is primarily remote and of low relative resource potential. Therefore, the chance to replace this marginal remote acreage with strategically situated (mostly urban) real estate throughout Alaska has considerable appeal.

As with most proposals, this one has some drawbacks. Although the proposal certainly would seem to adhere to the new federalism policy of U.S. government, I can imagine opposition from the federal OMB which is looking for opportunities to reduce the federal budget deficit.

Another potential problem is the state's ability to manage the loans and real estate, once acquired. It may be necessary to create a new corporation or authority (i.e. land bank) to manage the loans and improved properties or use existing state processes (i.e. Alaska Housing Finance Corporation). However, this end of the process has already received considerable attention in Juneau. The Anchorage Economic Development Corporation, Sealaska Corporation and Dave Rose have all recently proposed various means to manage these holdings. The unimproved properties could be simply transferred to the Department of Natural Resources for management.

There are also other variances on the main theme which may be attractive. For instance, the state might consider converting to dollar-equivalents the 75,000 acres of school land entitlement under subsection 906(b) of the Alaska National Interest Lands Conservation Act (ANILCA). The state has not yet selected any of these lands and it is very unlikely that we could now select land which would provide a future base for revenue production in association with the school trust. On the other hand, the conversion of this acreage to dollar-equivalents to acquire the FDIC and FHA loans and property would provide a unique opportunity to establish a solid revenue base for the school trust. This plan would also add an important and influential constituent support group to the conversion effort, while providing a new long-term revenue source for school programs.

Action Plan

There are a number of steps necessary to advance this proposal beyond the conceptual stage. First, it must be studied and approved by the legislature as well as other economic interests within the state. Second, the Alaska Congressional delegation must be brought on board and propose legislation in Congress. The Governor's Office in Washington, D.C. would be instrumental in this regard. Also, the state must devise a mechanism to manage these loans and properties once they are acquired. This is also an arena for the legislature to explore and resolve. I would imagine that this proposal could be accomplished in about six months, although that assumes that everything would fall into place (an unlikely scenario).

Please let me know if you think this proposal is viable.

cc: Judy Brady, CO
Tom Hawkins, CO
John Katz, Governor's Office - Washington, D.C.

RBY

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 those 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

- **Preserve basic structure and competition of thrift industry.**
- **Eliminate duplication and over-branching**

GUIDELINES USED IN DEVELOPING SOUTHWEST PLAN

- **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/ FORT WORTH	1, 2, 3 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 INCLUDING FT. WORTH, TYLER, LONGVIEW, SHERMAN DENTON, ETC.	(NORTH AND EAST TEXAS)
4	HOUSTON, GALVESTON, BEAUMONT, 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, KILLEEN, BRADY, WACO	(CENTRAL TEXAS AND THE HILL COUNTRY)
9	CORPUS CHRISTI, RIO GRANDE VALLEY, 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, WACO	(NORTH AND WEST CENTRAL TEXAS)

**Non-viable thrifts should be
"packaged" with creative FSLIC
financial and regulatory assistance
to create marketable entities.**

CONCLUSION

- 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.

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.

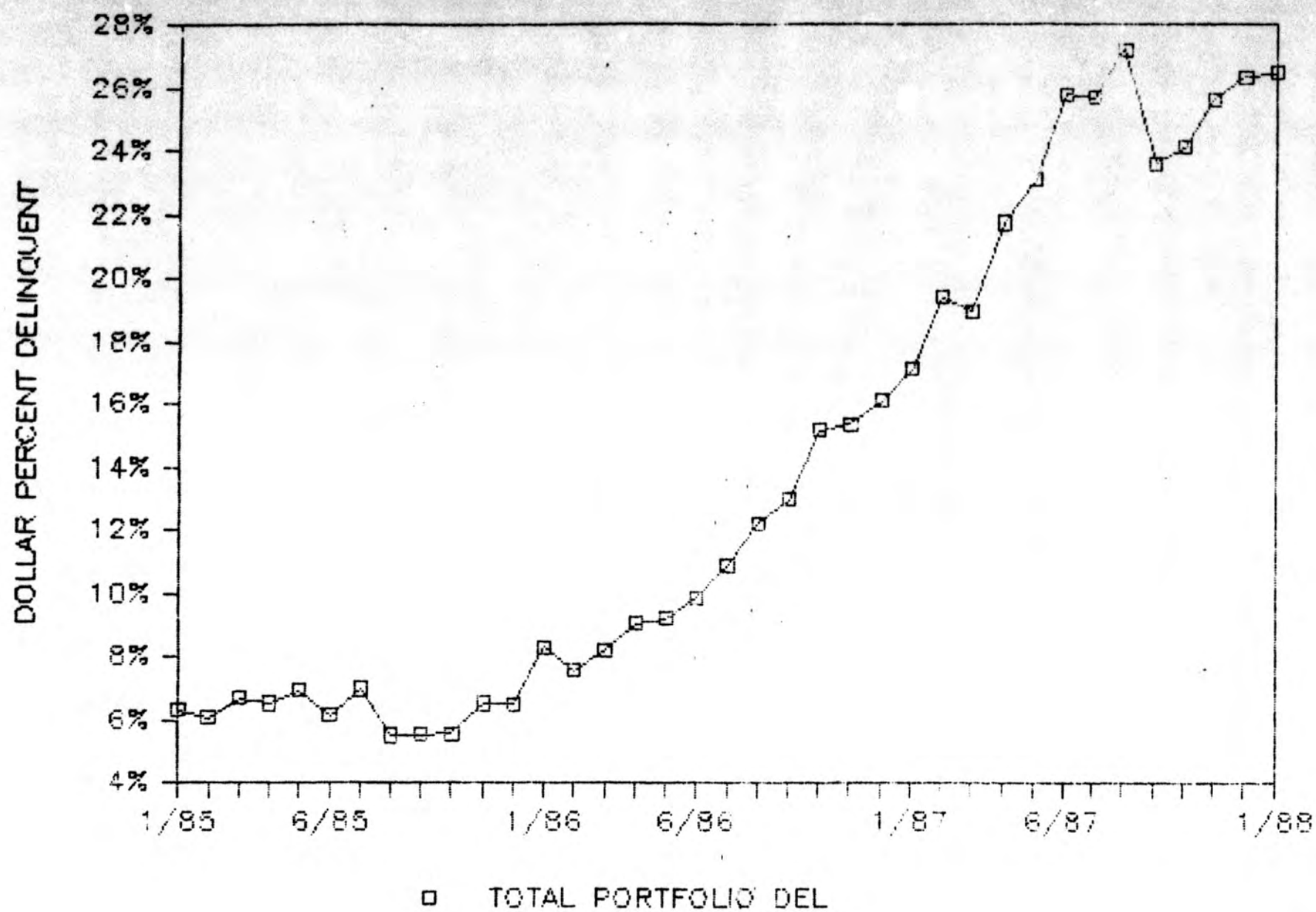
please direct Client Clearance Pre-Screening questions and information to:

Mr. Thomas L. Batties
Marketing Director
Mergers and Acquisitions Division
1700 G Street, N.W.
Washington, D.C. 20552
(202) 254-2593

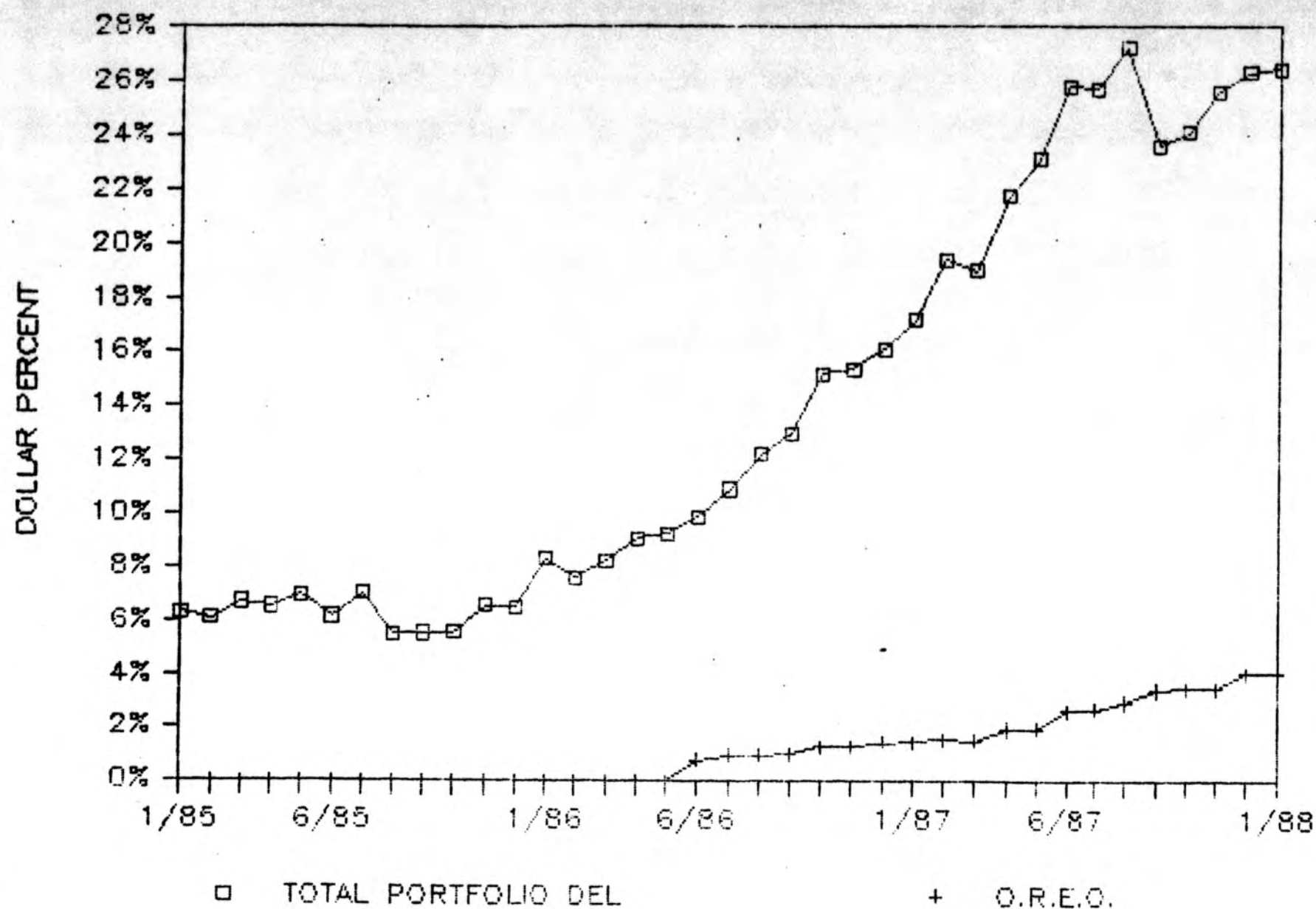
ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**Income Statement Highlights**

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

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 ^{AREA}~~Slope~~
 Distribution of Delinquency
 As of 12/31/87

Area	Number	%	Total Delinquent 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

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Delinquent Bond Sale Loans by Type

As of 12/31/87

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

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

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

Type of Property Location	AIDEA Balance	Estimated Value Date	Additional Collateral	Total Original Payment	Total Modified Payment	Term	Status 10/30
8 unit hotel bldg. leasehold Chena Hot Springs	\$ 139,872.34 90%	\$ 242,000 07/81	N/A	\$ 1,762	\$ 881 1/2 pymnt	12/87 - 11/89	Waiting for documents from servicer
2-8 unit hotel bldgs. leasehold Chena Hot Springs	\$ 358,814.89 90%	\$ 590,000 01/83	N/A	\$ 4,226	\$ 2,113 1/2 pymnt	12/87 - 11/89	Waiting for documents from servicer
Tank manufacturing plant Fairbanks	\$1,095,171.06 81%	\$1,598,000 06/87	\$ 400,000	\$ 11,386	\$ 5,694	1 year	Waiting for documents from servicer
6 plex apt. bldg. Anchorage	\$ 223,022.28 89%	\$ 400,000 03/84	N/A	\$ 2,254	\$ 2,016 int only	10/87 - 9/88	Current
Office bldg. Anchorage	\$ 719,867.56 86%	\$1,180,000 02/82	N/A	\$ 9,165	\$ 8,086 int only reg.pymnt + \$1,000	01/87 - 12/88 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 Location	AIDEA Balance	Estimated Value Date	Additional Collateral	Total Original Payment	Total Modified Payment	Term	Status 10/30
A/R Inventory Rent A Wreck Anchorage	\$ 38,004.97	\$ 50,000 Personal guarantee	3rd D/T on Anch. residence	\$ 8,312	\$ 500	03/87 - 02/88	Current
Reed Bldg. Marx Bros. Bldg. Anchorage	\$ 341,935.94	\$ 680,000 1980	N/A	\$ 5,368	\$3,000 int. only	09/86 - 02/88	Work out broken Foreclosure pending
2 metal warehouses Bethel	\$ 152,651.47	\$ 475,000 1986	N/A	\$ 3,200	\$2,200	08/86 - 01/95	Work out broken Foreclosure pending
Fishing Vessel Cordova	\$ 39,176.92	\$ 125,000 1986	N/A	\$16,726 Annual	\$ 7,000 Annual	10/86 - 10/87	Completed as agreed
Retail/warehouse Wasilla	\$ 815,465.25	\$ 630,000 1987	N/A	\$ 6,728	\$ 1,000	06/87 - 10/87	Completed as agreed Deed-in-lieu accepted
Lumber yard Fairbanks	\$ 359,827.10	\$ 773,000 1987	N/A	\$ 5 981	\$ 3,468	07/87 - 06/88	Waiting for signatures on modification
2 vacant lots Anchorage	\$ 209,234.65	\$ 564,000 1986	N/A	\$ 6,310	\$ 3,000	03/87 - 02/89	Paid to 09/01/87. AIDEA has not received payments since closure of ANB by FDIC
Fishing vessel & tri-plex Ketchikan	\$ 31,424.27	\$ 154,000 1985	N/A	\$ 7,952 Annual	\$ 492 Month	12/86 - 05/87 Then back to annual payment	Pd '87 annual payment 09/29/87. Lacks 1 monthly payment of being current
Retail/warehouse Wasilla	\$ 153,541.33	\$ 141,380 1987	N/A	\$ 2,468	\$ 3,702 1 1/2 pymts	03/87 - 11/87	Work out broken Possible deed-in-lieu

Type of Property Location	AIDEA Balance	Estimated Value Date	Additional Collateral	Total Original Payment	Total Modified Payment	Term	Status 10/30
Vacant lot Anchorage	\$ 42,150.55	\$ 500,000 1987	N/A	\$ 4,476	\$ 689 int. only	10/87 - 10/88	Paid to 12/01/87
Office/retail Homer	\$ 109,862.47	\$ 375,000 1984	N/A	\$ 1,721	\$ 1,000	03/87 - 03/88	Paid to 12/01/87
Hotel Anchorage	\$ 304,172.64	\$1,200,000 1987	N/A	\$ 6,368	\$ 2,622 int. only	01/87 - 07/88	Original work out broken & negotiated new plan.
Hotel Anchorage	\$ 758,953.64	\$1,950,000 1987	N/A	\$10,910	\$ 6,867 int. only	01/87 - 07/88	Original work out broken & negotiated new plan.
3 parcels including lodge, restaurant, laundry & store Glenallen	\$ 305,190.52	\$ 1,350,000 1980	N/A	\$ 4,530	\$ 2,755	10/86 - 05/88	Paid to 12/01/87
Shop/warehouse Anchorage	\$ 137,695.56	\$ 151,235 1987	N/A	\$ 2,201	\$ 1,349 int. only	02/87 - 06/88	Original work out broken. Borrower paid current on eve of foreclosure.
Office condo Anchorage	\$ 183,984.01	\$ 104,957 1987	N/A	\$ 2,121	\$ 1,626 int. only	07/87 - 06/88	Paid to 12/01/87
Shop Bldg. Wasilla	\$ 47,797.27	\$ 99,600 1987	N/A	\$ 2,154	\$ 500 int. only	05/87 - 09/88	Paid to 09/01/87. AIDEA has not received payments since closure of ANB by FDIC.
AK State Fair Grounds Palmer	\$ 310,223.63	\$ 1,163,000 1976	N/A	\$33,311	\$24,000 semi-annual	05/87 - 05/88	Current

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

Type of Property Location	AIDEA Balance	Estimated Value Date	Additional Collateral	Total Original Payment	Total Modified Payment	Term	Status 10/30
444 acres Chena Hot Springs Fairbanks	\$ 589,805.95 Appro \$ 448,105.25 RD	\$2,500,000 1979		\$ 9,387 \$ 6,593	\$ 4,693 \$ 3,296	12/87 - 11/89	Waiting for documents from servicer
steel shop on leasehold Fairbanks	\$ 162,387.91	\$ 590,000 1987		\$ 4,970	\$ 2,500	9/87 -8/88	Paid to 12/20/87
32' gillnetter	\$ 28,549.82	\$ 60,000 1987		\$ 6,875 Annual	\$ 3,438 semi-annl	11/87 -8/88	Waiting for signatures
Grocery store Homer	\$ 183,935.95	\$1,200,000 1978		\$ 5,116.50	int only	11/86 -5/88	Paid to 10/01/87
Heady Hotel Homer	\$ 411,897.14	\$ 566,800 1987		\$ 38,746.52 semi-annual	\$ 5,016 monthly	10/87 -2/95	Paid to 01/01/88
Total #32	Total R. D. & Appro. \$7,673,968.04						
Total #1	Total B. S. \$ 276,625.59						
Total #33	\$7,950,593.63						

OREO foreclosed Property

Legal	Type of Property	Foreclosure Date	Appraised Value	Amt in OREO Account	Listing	Activity
2 Parcels: J. McCall, Inc. Yard - Mile 7 Richardson Hwy. Lakloey Hill Residence	Largely vacant property in Fairbanks	7/30/85	JMI Yard \$585,000 7/85	\$338,166.64 (\$715,645.73 charged down in 1984)	NBA is managing - Lost Supreme Court hearing regarding drag net clause on additional collateral Lost LPCC yard as a result	Residence sold 10/06/87 for \$101,000 total
Units 1-4, 7, 8A, 8B, 10, Building A of River Mall on L2, Alexander S/D - Fairbanks	Mall	5/27/86	\$1,976,400. 1984	\$897,742.61 (167,476.80)sale \$730,265.81	FNBF is marketing at \$160/s.f. thru Coldwell Bankers	3 units sold 3,700 sf to be leased to Fred Meyer
E 1/3 of S 1/2 of L1, B4, Mtn. View S/D - Anchorage 3243 Commercial Dr.	Retail Whse 4200 sq.ft.	6/26/86	\$275,500. 1986	\$165,743.08	Listed w/ Jack White for \$230,000 since 9/86. 6/1/87 lowered price to \$198,000.	1 offer in 8/87. Buyer wldn't acpt counter
Tract A, Spruce Acres S/D + 300' x 300' in the SW 1/4 SE 1/4, S34, T45, R15W, SM, Homer Recording District aka Keystone Center at Anchor Point, AK	Mall	7/29/86	\$800,000 3/86	\$576,195.87	FSLIC deeded property 100% to AIDA. Karabelnikoff & Assoc. acting as prop. managers.	2 tenants
Leasehold int. in L3 & 4, B900, Deadhorse Airport	Hangar & Equipment	8/21/86 (Deed- in-lieu)	\$1.4M 1981 \$726,650 Est Value 1986	\$661,343.91	FNBA to take over marketing.	
Leasehold int. in L6, B200, Iliamna Airport, Iliamna	Hangar	10/9/86	\$450,000 1983	\$111,112.50 (\$185,110.73 written off 06/30/87)	5/87 - Listed w/ Remote & Recreational Prop. for \$150,000.	
L1A, Forest Dr. S/D - Anchorage - 1,872 sft. 4228 Laurel St.	SFR, zoned R-0	1/5/87	\$125,500 (Assessed Value)	\$117,329.02	ERA/Bates has listing listed for \$175,000 5/11/87 lowered price to \$149,500	

Legal	Type of Property	Foreclosure Date	Appraised Value	Amt in OREO Account	Listing	Activity
L9, B5, Dimond Ind. Center #1, Anchorage 7900 & 7910 King St.	Retail Warehouse 5,172 sf 2 bay	12/16/86	\$377,300 (Assessed 1986)	\$274,239.92	FNBA marketing for \$310,000 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 (1987 Est.)	\$967,411.20	AMB soliciting tenants	A number of units leased.
Tract 3A, Independence Park S/D, Anchorage 2121 Abbott Rd.	Office/Warehouse 12,000 sf NRA - 2 story	3/2/87 Deed-in-lieu	\$1,000,000 (1986 Est.)	\$728,000.00 (\$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 Deed-in-lieu	\$86,000 (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 (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 (1981) \$55,000 (1987)	\$47,300.00 (\$19,837.69 written off 06/30/87)	ASB to market for 30 - 60 days. Listing Price \$65,000	Poss. 1 yr pur. optn wch would cvr costs.
L15A, & 17A, B6, City View S/D #3, Anchorage 2600 E. 16th Ave.	6,988 sf grocery store on E. 16th Ave.	6/3/87	\$250,000 (1987 est.)	\$220,000.00 (\$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. 300 E. Dimond	27,620 sf shpg mall on Dimond		\$3,000,000	\$2,376,179 (\$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 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 5001 Eagle St.	10,550 sf office/shop	6/29/87	\$605,000	\$544,500 (\$40,353.94 charged to Loan Loss 6/30/87)		
Unit A-F, L9C, Interair S/D Anchorage 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 Deed-in-lieu	\$90,000	\$73,800 (\$10,963.42 charged to Loan Loss 6/30/87)		
L7, B3, Westgate Park S/D Anchorage 6235 Nielsen Way	1,225 sf off. & 12,169 sf. warehouse	7/23/87	\$469,000 (Assessed 1986)	\$236,217.94	Chris Anderson & KBA handling	
L3E, B2, "C" St. Industrial S/D Anchorage 6151 "B" St.	880 sf off & 6,320 sf whse w/2,400 sf mezzanine strge.	8/21/87	\$375,000	\$317,456.37		
USS 2729 Sitka	16 unit, 20,000 sf business park	8/17/87	\$1,150,000 (1987 est.)	\$837,200.00 (\$159,817.51 charged to Loan Loss 9/30/87)		
L1 & 2, Irvin S/D Homer NHN Katchemak Dr.	11,792 sq.ft. office	9/14/87	\$227,000 (1987 est.)	\$202,030.00 (\$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 (1987 est)	\$55,000	Listed with Remote & Recreational Prpty	
L11A, B39, Orig Twinst of Anch. 444 H Street	2 story, 4856sf office building	11/17/87	\$530,000 (1987 est)	\$477,000 (\$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 (1987 est)	\$250,200 (\$2,940.26 charged to loan loss reserve 12/8/87)		

MR LOWE

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, FDIC and AIDA officials. The services of a consulting firm and legal counsel (such as SEAFIRST can provide) could bring the program into existence.

Review AIDA STATUTES

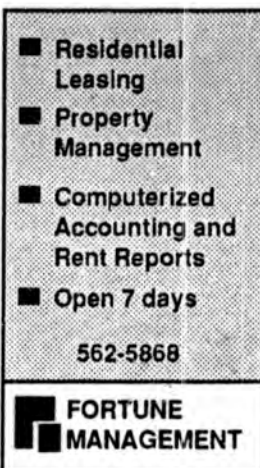
FORTUNE MANAGEMENT Created To Handle Residential Property Management

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.



From: *Connie Yoshimura*

FORTUNE PROPERTIES
3000 "A" Street, Suite 101
Anchorage, AK 99502



*Senator Arliss Stungulowski
P.O. Box V
Juneau, AK 99811*

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.

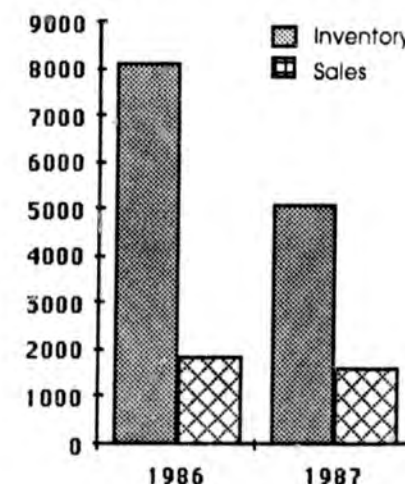
The repossessed inventory owned by institutional sellers such as Fannie Mae, AHFC, MGIC, FHA, and VA are mostly in the lower price ranges under \$100,000. The majority of it is in condos which will take many years to sell. However, the average priced single family home as reported sold by MLS is \$127,000.

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

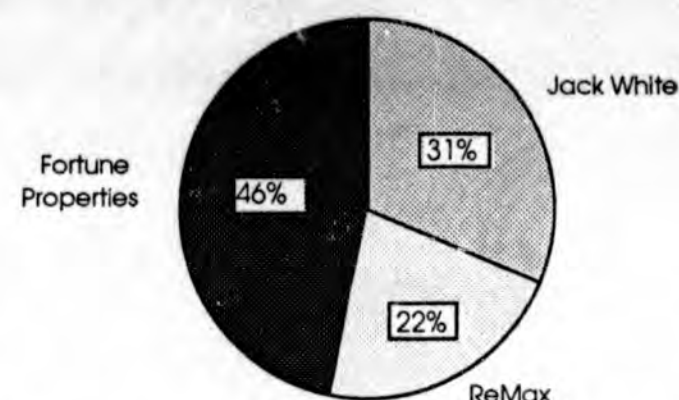
become apparent as buyers in the spring try to find quality housing to purchase.

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 Hillside 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 gar 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 workbench, 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 bases, 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 Potter's 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.

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 Unit</u>	<u>Corporation Subsidiary</u>	<u>Joint Venture</u>	<u>Investment Bank</u>	<u>Commercial Bank</u>
Control	<u>Most</u>				<u>Least</u>
Economies of Scale	<u>Least</u>				<u>Greatest</u>
Financial Risk - Spreading	<u>Least</u>				<u>Greatest</u>
Capital Requirements	<u>Low</u>				<u>High</u>
Complexity and Cost of Implementation	<u>Least</u>				<u>Most</u>
Degree of Government Regulation	<u>Least</u>				<u>Greatest</u>

Peter McDowell
June 1987

Sealaska eyes FDIC properties

By Robert Lewis

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 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 focused," 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-8

Properties: 'We're picking up the ball'

Continued from page D-4

"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

Senator Rick Halford



Senate District 1
Chugiak, Eagle River, East Anchorage, Fort Richardson

Senate Finance Committee
Co-Chairman

February 28, 1988

MEMORANDUM

TO: Senator Lloyd Jones, Co-Chairman
✓ Senator Arliss Sturgulewski, Co-Chairman
Senate Joint Economic Recovery Committee

Representative Max Gruenberg, Chairman
House Joint Economic Recovery Committee

FROM: Senator Rick Halford, Co-Chairman
Senate Finance Committee

SUBJECT: Visit to Juneau by Economist Ryan Amacher

Last session Dr. Ryan Amacher, an economist with Clemson University, visited Juneau as part of his work with the University of Alaska. The emphasis of Dr. Amacher's excellent presentation was the role of economics in public policy. As you know, this topic continues to be a subject extremely relevant to the discussions currently underway in the Legislature.

Dr. Amacher will be the Senate Finance Committee's guest next week while in Juneau March 7th and 8th. He will be making a presentation to the Senate Finance Committee on Monday morning, and if possible, I also believe it would be beneficial for him to speak to the Economic Recovery Committee, either jointly or individually, whichever you prefer.

In order to plan his schedule, Cheryl Frasca of my staff will be contacting your office by Wednesday to learn your pleasure.

Thank you.

cc: Senator John Binkley, Co-Chairman, Senate Finance Committee

CURRICULUM VITAE

Ryan C. Amacher

December 1987

<u>Home Address:</u>	Tarnwood Farm Route 5 Seneca, S.C. 29678	<u>Home Phone:</u>	(803) 882-4075
<u>Office Address:</u>	College of Commerce and Industry Clemson University Clemson, S.C. 29634-1301	<u>Office Phone:</u>	(803) 656-3177
<u>Date of Birth:</u>	November 9, 1945; Medford, Wisconsin.		
<u>Marital Status:</u>	Married; Susan Smith Amacher (1967).		
<u>Citizenship:</u>	U.S.A.		
<u>Education:</u>	A.B. Ripon College	May, 1967	Economics
	Ph.D. University of Virginia	June, 1971	Economics

Permanent Appointments:

Dean, College of Commerce and Industry, Clemson University, July 1981-Present.

Professor of Economics, Clemson University, July 1981-Present.

Chairman, Department of Economics, Arizona State University, July 1977-June 1981.

Professor of Economics and Associate Professor of Economics, Arizona State University, July 1975-June 1981.

Senior International Economist, U.S. Treasury, 1974-1975.

Assistant Professor of Economics, University of Oklahoma, 1972-1974,
Associate Professor, 1974.

Economist, General Electric TEMPO, Center for Advanced Studies, 1971-1972.

Instructor, University of Virginia, 1970-1971.

Graduate Instructor, Principles of Economics, University of Virginia, 1968-1970.

Research Assistant, University of Virginia, Summer, 1968.

Special Appointments:

Lecturer, University of Alaska, program on Economic Development Strategy and Tax Policy for State of Alaska, Anchorage and Juneau, February 1987, sponsored by the Alaska Council on Economic Education.

Lecturer, Universidad Pontificia Bolivariana, Medellin, Colombia, S.A. (organized a joint program between Clemson University and UPB), 1986.

Lecturer, summer session, University of Aix-Marseille, Aix-en-Provence, France, 1985.

Lecturer, Ecole Supérieure de Commerce de Pau, France (formalized a joint program between ESC and Clemson which leads to a Master's in Industrial Management from Clemson and a diploma from ESC), 1985.

Lecturer, special program on Joint U.S.-Caribbean Textile Trade issues, Barbadoes, 1984.

Lecturer, China Textile University, Shanghai, PRC (established joint CTU/Clemson University educational exchange program), 1984.

Special Commentator, Carolina Journal, Educational Television, Columbia, S.C. (taped 35 3-minute issue-oriented spots), 1984-Present.

Lecturer, Third American-Romanian Business Exchange, Stefan Gheorghiu Academy, Bucharest, Romania, 1978.

Consulting and Professional Activities:

Governor's Appointee, South Carolina Council on Competitiveness, 1987-Present. Chair, Subcommittee on Taxation.

Member, Board of Directors, CFI, Arizona, 1987-Present.

Member, Transition Team for Economic Development, Governor-Elect Carroll Campbell, November 1986-January 1987.

Member, Board of Trustees, Citizens and Southern Bank of South Carolina, 1986-Present.

Charter Member, Economic Advisory Committee, and Board of Directors, Business Week, South Carolina Chamber of Commerce, 1986-Present.

Member, Continuing Accreditation Committee, American Assembly of Collegiate Schools of Business, 1986-Present.

Member, Initial Accreditation Committee, American Assembly of Collegiate Schools of Business, 1984-1986.

Member, Visitation Committee, American Assembly of Collegiate Schools of Business, 1983-1985.

Member, Board of Directors, South Carolina Council on Economic Education, 1983-Present.

Consultant, South Carolina State Chamber of Commerce, June 1983-Present.

Consultant, South Carolina Textile Manufacturers Association, May 1982-Present.

Governor's Appointee, Textile Industry Study Committee, November 1981-Present.

Member, Energy Committee of South Carolina Chamber of Commerce, April 1982-1985.

Member, Board of Directors, S.C. Small Business Development Center, 1981-Present; Chairman, 1983-1986.

Member, The Productivity Task Force (South Carolina), April 1982-August 1983.

Member, Governor Richard Riley's Education Transition Team, 1982-1983.

Consultant, Federal Trade Commission, December 1981-August 1983.

Consultant, Mountain West Research, 1979-1981.

Consultant on Tax Reform, Governor Bruce Babbitt, Arizona, May 1979-June 1981.

Member, Legislative Committee on Property Tax Reform, Arizona Senate, 1979.

Consultant, U.S. Treasury, 1972-1977.

Administrative Experience:

Clemson University, July 1981-Present.

Dean of college composed of 127 faculty and 40 staff in the School of Business (Departments of Economics, Finance, Management, and Marketing), the School of Accountancy, the School of Textiles, the Office of Professional Development, the Small Business Development Center, and the Center for Policy Studies, with a combined annual budget of \$11.3 million. Major responsibility in raising over \$5.3 million in support and endowment funds since 1981. Raised \$770 thousand private cash contribution in fiscal year 1986-87. Made frequent speeches to business and industrial groups and presentations to the South Carolina Budget and Control Board.

Arizona State University, 1977-1981.

Chairman of a 32-person department, responsible for budget, recruiting, scheduling and curriculum development. Frequent interaction with committees of the state legislature.

U.S. Treasury, 1974-1975.

Assistant to the Deputy Assistant Secretary for Research. Responsible for administration for 20 economists and 10 supporting staff. Duties included budget and personnel matters (including recruiting).

Major University Committees:

Clemson University

Advisory Board, Center for the Study of the Black Experience in Higher Education, 1987-Present.

Advisory Board, Emerging Technology, Development, and Marketing Center, 1987-Present.

Army Advisory Committee, 1987-Present.

Board of Directors, Clemson University Foundation, sole University member, 1987-Present.

Facilities Planning Committee, 1987-Present.

Commission on Salaries and Fringe Benefits, 1985-Present.

President's Council, 1982-1985.

Commission on Student Affairs, 1981-Present.

Deans Council, 1981-Present.

Commission on Faculty Affairs, 1981-1983.

Arizona State University

Pacific Basin Institute Planning Committee, 1980-1981.

Goldwater Chair Search Committee, 1977-1979.

Long-Range Planning Committee, 1976-1977.

University of Oklahoma

Member of Dean's Ad Hoc Advisory Committee, 1973-1974.

Chairman of Recruiting Committee, 1972-1973.

Honors and Awards:

Distinguished Alumnus, Ripon College, 1987.

Honorary Inductee, Phi Psi, 1984.

Award for Outstanding Contributions, South Carolina Textile Manufacturers Association, 1983.

Honorary Inductee, Delta Sigma Pi, 1983.

Honorary Inductee, Beta Gamma Sigma, 1979.

Brookings Policy Fellowship, 1974 (declined).

Governor's Fellow, University of Virginia, 1969-1971.

Omicron Delta Epsilon, 1968.

Professional Affiliations:

Member: American Economic Association, Western Economic Association, Society for the Study of Public Choice, Southern Economic Association, Southern Textile Association, Southern Deans Association, American Assembly of Collegiate Schools of Business, National Council for Textile Education, The Textile Institute.

Reviewer: Journal of Political Economy, American Economic Review, Economic Inquiry, Public Finance Quarterly, Prentice-Hall, Wadsworth, National Science Foundation, Houghton Mifflin,

Southern Economic Journal, Journal of Money, Credit and Banking.

Academic Fields of Interest: Microeconomic Theory; Public Finance; International Economics.

Books:

Principles of Economics (Cincinnati: South-Western Publishing Co., 1981), [1st edition, 1981; 2nd edition, 1983; 3rd edition, 1986, with H. Ulbrich].

Principles of Macro-Economics (Cincinnati: South-Western Publishing Co., 1980), [1st edition, 1980; 2nd edition, 1983; 3rd edition, 1986, with H. Ulbrich].

Principios De Macroeconomia (Cincinnati: South-Western Publishing Co., 1983). Spanish translation of **Principles of Macro-Economics**, translated by E.A. Cabarrouy.

Principles of Micro-Economics (Cincinnati: South-Western Publishing Co., 1980), [1st edition, 1980; 2nd edition, 1983; 3rd edition, 1986, with H. Ulbrich].

Principios De Microeconomia (Cincinnati: South-Western Publishing Co., 1984). Spanish translation of **Principles of Micro-Economics**, translated by E.A. Cabarrouy.

Public Sector Managerial Economics (Cincinnati: South-Western Publishing Co., in progress).

Challenges to a Liberal International Economic Order, edited by R.C. Amacher, G. Habler, and T.D. Willett (Washington: American Enterprise Institute, 1980).

The Economic Approach to Public Policy: Selected Readings, edited, and with independent contributions by R.C. Amacher, R.D. Tollison, and T.D. Willett (Ithaca: Cornell University Press, 1976).

The Law of the Sea: U.S. Interests and Alternatives, edited by R.C. Amacher and R.J. Sweeney (Washington: American Enterprise Institute, 1976).

Yugoslavia's Foreign Trade (New York: Praeger Publishers, 1972).

The Economics of the Military Draft (Morristown, N.J.: General Learning Press, 1973), with J.C. Miller, M.V. Pauly, R.D. Tollison, and T.D. Willett. Reprinted as a chapter in **The Military Draft: Selected Readings on Conscription**, edited by M. Anderson (Palo Alto: Hoover Institution Press, 1982).

Articles, Chapters in Books, and Notes:

- "Principles of Economics: From Now Until Then," Journal of Economic Education, forthcoming.
- "Comment on Thurow, Maris, Shelton-Colby, and Gardner--'Beyond Protectionism, New Problems, New Approaches,'" World Policy Journal, Winter 1985-86.
- "Economic Value of an In-House Editor," Public Choice, Vol. 48, No. 2, 1986, with J. McDowell.
- "The Behavior of Regulatory Activity Over the Business Cycle: An Empirical Test," Economic Inquiry, January, 1985, with R. Higgins, W. Shughart, and R. Tollison. Reprinted in Mackay, Miller, and Yandle, Public Choice and Regulation: A View From Inside the Federal Trade Commission (Stanford: Hoover Institution Press, 1987). Summarized in "Readings of Particular Interest," Regulation (Washington, D.C.: American Enterprise Institute).
- "International Markets versus the New International Economic Order: Challenges to the Independence of Nation States," New Horizons in East-West Relations, edited by M. Jackson and J. Woodson (New York: Columbia University Press, 1984).
- "Inflation in The Planned Economies: Reply," Southern Economic Journal, October, 1984, with P. Culbertson.
- "Economics and Public Policy," chapter in Social Science and Public Policy: The Roles of Academic Disciplines in Policy Analysis, edited by G.J. McCall and G.H. Weber (Port Washington, N.Y.: Associated Faculty Press, 1984).
- "Unemployment Rates and Political Outcomes: An Incentive for Manufacturing a Political Business Cycle," Public Choice, 38: 1982, with W.J. Boyes.
- "On the Integration of Labor Markets: A Definition and Test of the Radical Segmentation Hypothesis," Journal of Labor Research, Spring, 1981, with R.J. Sweeney.
- "The New International Economic Order and the Distribution of Gains from Trade: Lessons From The 'Real World.'" The Journal of Social and Political Studies, Spring/Summer, 1980.
- "The Problems of Youth Employment: Comment," Proceedings of Governor's Conference on Full Employment, edited by P.L. Burgess, Arizona State University, 1979.
- "Understanding the Conflict Between Theory and Practice," Problems of the International Economy, edited by A.L. Chickering (San

- Francisco: Institute for Contemporary Studies, 1979), with W.J. Boyes.
- "The Political Business Cycle: A Review of Theoretical and Empirical Evidence," ACES Bulletin, Fall/Winter, 1979, with W.J. Boyes, T. Deaton, and R. Tollison.
- "Politicians and Polity: Responsiveness in American Government," Southern Economic Journal, October, 1979, with W.J. Boyes.
- "Macroeconomic Policies and Political Incentives in Democratic Governments: A Test of the Political Business Cycle," ACES Bulletin, Vol. XXI, No. 1, Spring, 1979, with W.J. Boyes.
- "Analyzing International Externalities: The Case of the Law of the Sea Negotiations," Public Goods and Public Policy, edited by Loehr and Sandler (Beverly Hills: Sage Publications, 1978), with R.D. Tollison.
- "Cycles in Senatorial Voting Behavior: Implications for the Optimal Frequency of Elections," Public Choice, #3, 1978, with W.J. Boyes.
- "Eastern Europe's Stake in the Law of Sea Negotiations," East-West Business: Theory and Evidence, edited by Josef Brada (Bloomington: Indiana University Press, 1978).
- "Inflation in the Planned Economies: Some Estimates for Eastern Europe," Southern Economic Journal, October, 1978, with W.P. Culbertson, Jr.
- "A Note on the Webb-Pomerene Law and the Webb-Cartels," The Antitrust Bulletin, Summer, 1978, with R.D. Tollison and R.J. Sweeney.
- "Structural Disequilibrium and Growth Retardation in the Soviet Union," Weltwirtschaftliches Archiv, Heft 2, 1977, with D. Conger.
- "The Externality Argument for In-Kind Transfers: A Defense," Kyklos, Fasc. 2, 1977, with T. Sandler.
- "A Menu of Distributional Considerations," The Economic Approach to Public Policy: Selected Readings (Ithaca: Cornell University Press, 1976), with R.D. Tollison and T.D. Willett.
- "International Commodity Cartels and the Threat of New Entry: Implications of Ocean Mineral Resources," Kyklos, Fasc. 2, 1976, with R.J. Sweeney.
- "Risk Avoidance and Political Advertising: Neglected Issues in the Literature on Budget Size in a Democracy," The Economic Approach to Public Policy: Selected Readings (Ithaca: Cornell University Press, 1976), with R.D. Tollison and T.D. Willett.

- "The Economic Approach to Social Policy Questions: Some Methodological Perspectives," The Economic Approach to Public Policy: Selected Readings (Ithaca: Cornell University Press, 1976), with R.D. Tollison and T.D. Willett.
- "Property Rights Within Government and Devices to Increase Government Efficiency," Public Finance Quarterly, April, 1976, with R.D. Tollison.
- "State Trading and the Question of Discrimination: The Yugoslav Case," Economic Inquiry, September, 1975.
- "Budget Size in a Democracy: A Review of the Arguments," Public Finance Quarterly, April, 1975, with R.D. Tollison and T.D. Willett.
- "The Economic Theory of Clubs: A Geometric Exposition," Public Finance, Nos. 3-4, 1974, with L. Allen and R.D. Tollison.
- "Fiscal Preference and Balanced Budget Fiscal Policy," Public Choice, Fall, 1974, with R.D. Tollison.
- "Purchasing Power Parity Theory and Economic Reform in Yugoslavia," Journal of Political Economy, July/August, 1974, with J.S. Hodgson.
- "Yugoslav Trade in the Years of the Reform," East European Quarterly, Vol. III, No. 2, 1973.
- "Import Controls on Foreign Oil: Comment," American Economic Review, December, 1973, with R.D. Tollison and T.D. Willett.
- "The Economics of Fatal Mistakes: Fiscal Mechanisms for Preserving Endangered Predators," Public Policy, with R.D. Tollison and T.D. Willett, Summer, 1972. Reprinted in The Economic Approach to Public Policy: Selected Readings (Ithaca: Cornell University Press, 1976).

Book Reviews, Research Reports, and Other Publications:

- "Making It In Worldwide Markets: How Can a U.S. Business Move Forward in Today's International Environment?" Keynote speech, Association of the Nonwoven Fabrics Industry, printed in INDA 86 14th Annual Technical Symposium, October, 1986.
- "Review of The United States and Multilateral Resource Management," Journal of Comparative Economics, 10, 1986.

- Operation Baseline: An Audit of South Carolina's Economy**, South Carolina State Chamber of Commerce, November, 1985, coordinator and contributor.
- "Good Times and Bad Times in the Textile Industry," **Summer Technical Conference Papers** (Gastonia: Textured Yarn Association of America, July, 1985).
- "The Relationship of Technology to the U.S. Position in the World's Textile Market," **Proceedings of the American Association for Textile Technology, Inc.**, March, 1985.
- "Excise Taxes Overlooked in Tax Reform Proposals," **The American Legion**, September, 1985.
- "Testimony Before U.S. Congress," **Federal Enforcement of Textile and Apparel Import Quotas**, Committee on Government Operations, U.S. House of Representatives, November 18, 1984.
- "The United States Textile Industry," **Textile Science, Technology, and Economics** (Shanghai: East China Institute of Textile Science and Technology, 1984) with E. Vaughn and C. Rogers.
- "Trade: The New International Order and The United States Market," **Textile Science, Technology, and Economics** (Shanghai: East China Institute of Textile Science and Technology, 1984).
- "Testimony Before U.S. Congress on Small Business Development," testimony before the U.S. House of Representatives, Committee on Small Business, Parren J. Mitchell, Chairman, December 9, 1983.
- "Review of **Toward a Science of Politics**," **Southern Economic Journal**, July, 1982.
- "Teaching Supply Side Economics," in **Strategies for Teaching Economics**, by J.R. Clark, Joint Council on Economic Education, 1981.
- "Review of **Industrial Man and Industrialism in Retrospect**," **Southern Economic Journal**, January, 1981.
- "Comments on The Teaching of Introductory Economics," in **Economics: Strategies for Teaching Principles of Economics in Two-Year Colleges**, edited by J.R. Clark, Joint Council on Economic Education, 1980.
- "Recruiting Economics Majors," **Collegiate News and Views**, 1980, with R.J. Sweeney.
- "Review of **Defending the National Interest**," **Southern Economic Journal**, January, 1980.

- "The Economics of Taxation," Chapter 2 in Toward Tax Reform, under auspices of Arizona Academy, published by Center for Public Affairs, Arizona State University, September, 1979.
- "Review of Cost of Preventive Services," Annals of Regional Science, March, 1979.
- "Winning Federal Grants in Maricopa County," Arizona Business, January, 1977, with S. Hoffman.
- "The Public Sector," Chapter V in Arizona's Economy: Yesterday, Today and Tomorrow, under auspices of Arizona Academy, Occasional Paper No. 12, Bureau of Business and Economic Research, College of Business Administration, Arizona State University, 1976, pp. 85-98, with W.J. Boyes.
- "New York City and The Urban Financial Crises; Implications for Phoenix," Arizona Business, June/July, 1976, with W. Boyes.
- "Has the Government of Business Become the Business of Government?" American Issues Forum, edited by R. Rice, Arizona State University, June, 1976.
- "Review of Redistribution Through Public Choice," Annals of Regional Science, March, 1976.
- "Review of Money and Finance in Contemporary Yugoslavia," East European Quarterly, Vol. IX, No. 2, 1975.
- International Aviation Policy Review: Rates, Fares, and Costs, Report of Working Group 2, Council of Economic Advisors, June 2, 1975, with others.
- International Aviation Policy Review: Air Transport Environment, Report of Working Group 8, Department of State, May 28, 1975, with others.
- "Review of Inflation and Economic Development in Brazil: 1946-1964," Annals of Regional Science, March, 1975.
- "Review of Economic Policy in Socialist Yugoslavia," East European Quarterly, Vol. VII, No. 2, 1974.
- "Review of The All Volunteer Army: An Analysis of Demand, Supply and The Case Against a Volunteer Army," American Political Science Review, with R.D. Tollison, June, 1974.
- "Review of Analysis of Public Systems," Annals of Regional Science, December, 1973.

Innovations for Achieving an All-Volunteer Force, report prepared for the Office of the Secretary of Defense (Washington, D.C.: General Electric TEMPO, January, 1972), with others.

References provided on request.

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

9-10-115
POUCHY - 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.

11 Ariz. Rev. Stats.—1  
1987 Supp. Pamph.

## § 33-1125

## PROPERTY

6. One watch not in excess of a fair market value of one hundred dollars.
7. One typewriter, one bicycle, one sewing machine, a family bible, a lot in any burial ground, one shotgun or one rifle or one pistol, not in excess of an aggregate fair market value of five hundred dollars.
8. One motor vehicle not in excess of a fair market value of one thousand five hundred dollars. If the debtor is maimed or crippled, the fair market value of the motor vehicle shall not exceed four thousand dollars.
9. Professionally prescribed prostheses for the debtor or a dependent of the debtor, including a wheelchair.

Amended by Laws 1976, Ch. 170, § 22; Laws 1983, Ch. 237, § 10.

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).

## § 33-1126. Money benefits or proceeds

A. The following property of a debtor shall be exempt from execution, attachment or sale on any process issued from any court:

1. All money received by or payable to a surviving spouse or child upon the life of a deceased spouse, parent or legal guardian, not exceeding twenty thousand dollars.

2. The earnings of the minor child of a debtor or the proceeds thereof by reason of any liability of such debtor not contracted for the special benefit of such minor child.

3. All money, proceeds or benefits of any kind to be paid in a lump sum or to be rendered on a periodic or installment basis to the insured or any beneficiary under any policy of health, accident or disability insurance or any similar plan or program of benefits in use by any employer, except for premiums payable on such policy or debt of the insured secured by a pledge, and except for collection of any debt or obligation for which the insured or beneficiary has been paid under the plan or policy and except for payment of amounts ordered for support of a person from proceeds and benefits furnished in lieu of earnings which would have been subject to such order and subject to any exemption applicable to earnings so replaced.

4. All money arising from any claim for the destruction of, or damage to, exempt property and all proceeds or benefits of any kind arising from fire or other insurance upon any property exempt under this article.

5. The cash surrender value of insurance policies where for a continued, unexpired period of one year such policies have been owned by a debtor and have named as beneficiary the debtor's surviving spouse, child, parent, brother, sister, or any dependent, to the extent of one thousand dollars for each surviving spouse, child, parent, brother, sister, or other dependent, not to exceed five thousand dollars in the aggregate. For this section a dependent is defined as one who is dependent upon the insured debtor for not less than one-half of his support.

6. Any claim for damages recoverable by any person by reason of any levy upon or sale under execution of his exempt personal property or by reason of the wrongful taking or detention of such property by any person, and the judgment recovered for such damages.

7. A total of one hundred fifty dollars held in a single account in any one financial institution as defined by § 6-101. The property declared exempt by this paragraph is not exempt from normal service charges assessed against the account by the financial institution at which the account is carried.

B. Any money or other assets payable to a participant or beneficiary from, or any interest of any participant or beneficiary in, a retirement plan which is qualified under §§ 401(a), 403(a), 403(b), 408 or 409 of the United States Internal Revenue Code of 1986, as amended, shall be exempt from any and all claims of creditors of the beneficiary or participant. This section shall not apply:

## PROPERTY

1. To an alternate § 414(p) of the United

2. To amounts con bankruptcy; or

3. To the assets of The interest of any a any creditor of the al

C. Any person the this state and who doe may claim as a pers including security de residence, not exceedi rent.

Amended by Laws 1976, 12, 1986; Laws 1987, Ch

Section 33-1101 et se

For effective date ar 1976, Ch. 170, see not

Reviser's Notes.

1983 Note. Pursuant 41-1304.02, in paragraph stituted for "month's" a fest clerical error.

1987 Note. Pursu § 41-1304.02, subsection relettered as subsection graph 8, subdivisions (a) bered as paragraphs 1, 2 was relettered as subse

Cross References

Garnishment, monies accounts, withholding fr § 12-1578.

## § 33-1130. Tools ar profession

The following tools business or profession

1. The tools, equip primarily used in, and profession of the debt value of two thousand do not include a me household purposes s

2. Farm machiner not in excess of an a debtor whose primar

3. All arms, unif Added by Laws 1976, C

For effective date a 76, Ch. 170, see no

Law Review Comment Arizona's new exemp J. No. 3, p. 32 (1983).



## PROPERTY

## 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 months' 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).

# Alaska State Legislature

Senate Advisory Council



P.O. 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



P.O. 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 Falke  
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.



# **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,

A handwritten signature in dark ink, appearing to read 'FHBurrow', with a large, stylized initial 'F' and 'B'.

FRED H. BURROW  
President

:khc1/30

**Alliance Bank**

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

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

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

**Background**

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

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

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

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

### The Proposal

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

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

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



SECOND DRAFT

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

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; others 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<br/>GROUP I - ASSEMBLY PRIORITIES</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)                           | \$11,400.0   | ROW acquisition \$4.2M<br>Roadway construction \$7.2M                                                                       |
| Hiland Road                                                                | \$ 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)                                      | \$ 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                                                          | \$ 900.0     | Strip paving. Design negotiation<br>underway                                                                                |
| Lake Otis (O'Malley-Huffman)<br>signalization at<br>Huffman                | \$ 3,100.0   | ROW acquisition \$.3M; design \$.4M; and<br>construction \$2.4M. Potential private<br>development under reimbursement plan. |
| ARDSA Rehab Projects                                                       | \$ 4,000.0   | Implementation of 5-yr. road improvement<br>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<br>on Hillside identifying specific capital<br>projects                                                                                        |
| W. Northern Lights Blvd. I<br>(Forest Park to Wisconsin)  | (\$ 1,400.0)        | Landscaping complete; request transfer<br>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<br>complete, construction contract awarded                                                                                                              |
| Central Business District<br>Rehabilitation               | \$ 600.0            | Sidewalk, curbs, drainage (design<br>complete)                                                                                                                                          |
| Downtown Sidewalk, Lighting<br>and Landscape Improvements | \$ 1,000.0          | Upgrade and improve curbs, sidewalk,<br>signals and lighting in areas of 5th and<br>6th between C and G. Design in<br>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<br>drainage. Under design for summer<br>construction.                                                                                             |
| Emerald Hills                                             | \$ 1,357.0          | Subdivision reconstruction roads and<br>drainage. Under design for summer<br>construction.                                                                                              |
| Heather Meadows Phase III                                 | \$ 724.0            | Subdivision reconstruction roads and<br>drainage (design 50% complete)                                                                                                                  |
| Municipal Building Energy<br>Projects                     | \$ 180.0            | Conversion to gas heat, mechanical<br>modifications, setbacks on fans and<br>heating systems, lighting reductions.<br>Will save an estimate of \$140,000 in<br>future annual O&M costs. |
| Town Square Park                                          | \$ 400.0            | Construct Phase I including site<br>preparation and underground utility<br>work. Design under contract for 1988<br>construction                                                         |
| Maritime Receiving Area                                   | \$ 2,000.0          | Installation of a fish handling and<br>small freight dock at Ship Creek for<br>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                                                                                                                                       |
| Girdwood Wastewater Treatment Facility                        | \$ 2,700.0          | Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek \$1M - in design                                                                                                                          |
| Hiland Drive Project                                          | \$ 2,770.0          | Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.                                          |
| Port/Landfill Development Project                             | \$ 4,800.0          | Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement. |
| Merrill Field Runway Construction Grant (matching grant)      | \$ 147.0            | FAA Federal grant to upgrade the Merrill Field north/south runway \$2.3M. Grant is being processed, design to be completed in May, construction August 1, completion mid-November.                                                 |
| Merrill Field Passenger Terminal                              | \$ 4,000.0          | Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.                                                                                                                         |
| <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> |                                                                                                |

# MEMORANDUM

## State of Alaska

TO: House of Representatives  
Senate

DATE: January 14, 1988

#15

FILE NO.:

THRU:

TELEPHONE NO.:

SUBJECT: Annual Report

FROM: Kristi Peel, Administrative Assistant  
Department of Commerce and  
Economic Development  
Division of Banking, Securities and  
Corporations

*in accordance  
with  
AS 06.05.05*

The Annual Report of the Division of Banking, Securities and Corporations for FY 1987 was submitted to Governor Steve Cowper, December 3, 1987. A copy for the opening of the Legislative Session is now submitted to:

Senator Jan Faiks, President of the Senate  
~~Nancy Quinto, Secretary of the Senate~~

Representative Ben Grussendorf, Speaker of the House  
Irene Cashen, Chief Clerk



# STATE OF ALASKA

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES & CORPORATIONS

STEVE COWPER, GOVERNOR

P.O. BOX D

JUNEAU, ALASKA 99801-0800

Banking & Securities (907) 465-2521

Corporation Section (907) 465-2530

ANCHORAGE

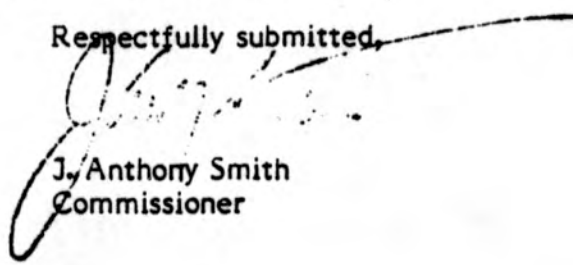
Corporation Information (907) 563-2161

Honorable Steve Cowper  
Governor  
P.O. Box A  
Juneau, AK 99811

Dear Governor Cowper:

I have the honor of submitting to you the Annual Report of the Division of Banking, Securities and Corporations covering Fiscal Year 1987, pursuant to the requirements of AS 06.05.055, the Alaska Banking Code. Included in the report are schedules and abstracts dealing with the operation and condition of state-chartered banks and financial institutions.

Respectfully submitted,



J. Anthony Smith  
Commissioner

JAS/wfs7165W  
113087c

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
DIVISION OF BANKING, SECURITIES AND CORPORATIONS

Banking Section

Fiscal Year 1987

Administrative Personnel

Willis F. Kirkpatrick, Director  
Kris Kuaana, Administrative Assistant

Examination

Thomas Lusk, Chief Bank/Review Examiner  
Dan Pittman, Section Clerk

Examiners

Tony Rivera, Juneau  
Larry Houston, Anchorage  
Frank Puschak, Anchorage  
Judson Lanier, Anchorage

Anchorage Field Office

Linda Hamel, Clerk

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# FINANCIAL INSTITUTIONS (BANKING)

## Receipts and Disbursements

### RECEIPTS

|                    | <u>FY 86</u> | <u>FY 87</u> |
|--------------------|--------------|--------------|
| Program Receipts * | \$112,709    | \$110,546    |

### DISBURSEMENTS

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Salaries and Benefits     | \$390,036        | \$425,565        |
| Operational Expenses      | 51,509           | 85,981           |
| TOTAL                     | <u>\$441,545</u> | <u>\$511,546</u> |
| Net Income (deficiencies) | [\$328,836]      | [\$401,000]      |

\*Maximum that can be charged for an examination is \$7,500.

# DIVISION OF BANKING, SECURITIES AND CORPORATIONS

## Receipts and Disbursements

### RECEIPTS

|                  | <u>FY 86</u>       | <u>FY 87</u>       |
|------------------|--------------------|--------------------|
| Program Receipts | \$ 112,709         | \$ 110,546         |
| Other            | 2,933,305          | 3,009,857          |
| TOTAL            | <u>\$3,046,014</u> | <u>\$3,120,403</u> |

### DISBURSEMENTS

|                           |                    |                    |
|---------------------------|--------------------|--------------------|
| Salaries and Benefits     | \$1,137,981        | \$1,013,351        |
| Operational Expenses      | 146,238            | 253,883            |
| TOTAL                     | <u>\$1,284,219</u> | <u>\$1,267,234</u> |
| Net Income (deficiencies) | \$1,761,795        | \$1,853,169 *      |

\*The division has a net income (excluding tax collections) of \$956,561 with the income of all three sections, Banking, Securities, and Corporations.

### CONDITION OF FINANCIAL INSTITUTIONS

Alaska state chartered banks are continuing to experience increases in loan delinquencies. As of June 30, 1987, past due loans totalled \$452 million, double the past due amount of a year ago. Real estate acquired through foreclosure also experienced a major increase, moving from the \$56 million of last year to \$107 million June 30, 1987.

Core deposits of state chartered financial institutions have, in most part, maintained their position over the last year, posting only a 6.5% decrease. At \$1.214 billion on June 30, 1987, compared to \$1.299 billion on June 30, 1986. Total assets of state chartered banks also declined a small amount to equal \$2.254 billion this year from \$2.624 billion of June 30, 1986. State bank assets represent 44.6% of all commercial banking assets in this state.

As long as there is an increase in nonperforming loans, the viability of banks suffering major losses continues to be of concern. Two bank holding companies involving three state chartered banks are in the process of reorganization which will infuse \$65 million in new capital with the FDIC assistance of \$295 million. This type of a solution is favorable to the marketplace as it results in some consolidation without the impact of failure.



The report format follows the sequence of requirements outlined in section 06.05.055.

Annual Report of Department

I. The text of all rules of general application adopted or altered by the department since the last report.

- A. CSSB 8 - amended AS 44.81.270 by adding a new subsection (c) stating that state bank examiners shall perform an annual qualitative examination and evaluation of CFAB and assess the bank a fee established under AS 06.01.010(b) for actual expenses. The bill was signed by the Governor and made effective on June 8, 1987.
- B. CSSB 87 - amended AS 06.05.209(b) relating to credit card interest rates. A bank may impose a service charge at a monthly rate that results in an annual rate not in excess of 17% on the outstanding balance. The bill was signed by the Governor and made effective on May 30, 1987.
- C. CSHB 273 - amended AS 06.05.470(t) allowing depositors to have greater preference on liquidation of a bank - amended AS 06.30.065 allowing a name change of a state-chartered savings and loan to "savings bank" to reflect the increase in powers - repealed AS 06.05.470(e) 15-day notice on closing banks. The bill was signed by the Governor and made effective on May 5, 1987.

No regulations were promulgated during FY 87.

II. Recommendations for legislation.

SCS CSHB 263 am\$ incorporates a number of fee charges proposed by other departments. The proposed legislation will allow the banking section to adopt a fee schedule based upon asset size. This section has tried for the past seven years to raise the ceiling of \$7,500, the maximum that can be charged, for bank examinations.

III. A statement of the status of assets and liabilities of all banking organizations which are in possession of the department.

None.

IV. A summary of all changes occurring since its last report by reason of opening new state banks, mergers and conversions, increases and decreases in capital, and similar changes.

- A. 1. Home Savings and Loan closed its Dimond Branch at 100 E. Dimond Blvd., Anchorage, Alaska, on July 31, 1986.

2. Approval was granted for the relocation of Home Savings and Loan's Wasilla Branch to 1590 E. Financial Drive, Wasilla, Alaska. The Certificate of Authority was issued for August 1, 1986.
  3. On August 8, 1986, Peninsula Savings and Loan Association was issued a Cease and Desist Order #87-4 to close its association. The order was issued under the authority of AS 06.01.030. FSLIC was the receiver duly appointed by the FHLB in Resolution #86-809, dated August 8, 1986. Peninsula Savings and Loan Association had three offices; Soldotna, Homer and Kenai.
  4. Three premium finance companies doing business in Alaska did not renew their licenses for the calendar year 1987. The companies were Berjac of Washington-Lynnwood, Washington; Profesco-New York, New York; and Progressive Premium Budget-Sacramento, California. Eleven premium finance companies were licensed.
  5. On June 12, 1987, Frontier Savings and Loan Association was issued a Cease and Desist Order #87-3 to close its association. FSLIC was duly appointed as receiver by the FHLB. Frontier Savings and Loan had one office in Fairbanks.
- B.
1. First Interstate Bank closed their ATM (Automatic Teller Machine) at the ARCO Tower Branch, 711 G Street, Anchorage, Alaska on July 7, 1986. The ARCO Tower Branch remains open.
  2. Approval was granted for First Interstate Bank to establish its Jewel Lake Branch at 9170 Jewel Lake Road, Anchorage, Alaska. The Certificate of Authority was issued on July 10, 1986.
  3. First Interstate Bank closed its ATM at the Cottonwood Creek Mall, 1801 Parks Highway, Wasilla, Alaska, on July 14, 1986.
  4. On July 14, 1986, approval was granted and Certificate of Authority issued for First Interstate Bank to relocate its King Salmon Branch to the King Salmon Mall, Main St. and Lake Camp Road, King Salmon, Alaska.
  5. Alaska Mutual Bank's new Wasilla Branch was approved and Certificate of Authority was issued on July 14, 1986. It is located at Mile 41 Parks Highway, Wasilla, Alaska.
  6. Alaska Statebank closed their Bentley Mall Branch at 36 College Road, Fairbanks, Alaska on August 29, 1986.

7. On September 29, 1986 Alaska Continental Bank closed its Denali Towers Branch at 2550 Denali Towers, Anchorage, Alaska.
8. Alaska Pacific Bank's Old City Hall drive-up facility at 5th and E, Anchorage, Alaska was closed on October 31, 1986.
9. On March 31, 1987 First Interstate Bank was issued a Certificate of Authority to relocate its C Street Branch to 3000 C Street, Anchorage, Alaska.

V. A Statement of Conditions of each bank as of the date of the most recent report of conditions.

See Attachment A.

7165W102787b



DIVISION OF BANKING, SECURITIES AND CORPORATIONS  
J. Anthony Smith, Commissioner  
William F. Kirkpatrick, Director of Banking

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES AND CAPITAL ACCOUNTS OF ALASKA STATE BANKS  
AS OF SEPTEMBER 30, 1967  
(Dollar amount in thousands)

|                                                                                      | Denali<br>State<br>Bank | United<br>Bank<br>Alaska<br>Southeastern | Alaska<br>Continental<br>Bank | B.N.<br>Behrends<br>Bank | Alaska<br>Statebank | First<br>Bank  | United<br>Bank<br>Alaska | First<br>Interstate<br>Bank of<br>Alaska | Alaska<br>Pacific<br>Bank | Alaska<br>Mutual<br>Bank | TOTAL<br>STATE<br>COMMERCIAL<br>BANKS | Mc. McKinley<br>Mutual<br>Savings<br>Bank | TOTAL<br>STATE<br>BANKS |
|--------------------------------------------------------------------------------------|-------------------------|------------------------------------------|-------------------------------|--------------------------|---------------------|----------------|--------------------------|------------------------------------------|---------------------------|--------------------------|---------------------------------------|-------------------------------------------|-------------------------|
| <b>ASSETS</b>                                                                        |                         |                                          |                               |                          |                     |                |                          |                                          |                           |                          |                                       |                                           |                         |
| Cash & Balances Due from<br>Depository Institutions                                  |                         |                                          |                               |                          |                     |                |                          |                                          |                           |                          |                                       |                                           |                         |
| Non-Interest Bearing.....                                                            | 2,056                   | 2,361                                    | 3,071                         | 4,005                    | 9,101               | 7,457          | 17,253                   | 19,216                                   | 19,581                    | 16,892                   | 101,793                               | 1,420                                     | 103,213                 |
| Interest Bearing.....                                                                | 1,875                   | 100                                      | 100                           | 100                      | 0                   | 44             | 1,600                    | 0                                        | 16                        | 3,020                    | 6,855                                 | 4,772                                     | 11,627                  |
| Securities.....                                                                      | 1,397                   | 10,196                                   | 2,493                         | 13,340                   | 15,584              | 90,033         | 74,638                   | 73,194                                   | 61,715                    | 30,552                   | 381,150                               | 37,106                                    | 418,256                 |
| Federal Funds Sold & Securities<br>Purchased to Resell.....                          | 3,890                   | 8,900                                    | 6,500                         | 9,025                    | 23,700              | 0              | 17,000                   | 23,000                                   | 0                         | 54,330                   | 146,345                               | 6,500                                     | 152,845                 |
| Loans & Leases, Net.....                                                             | 16,984                  | 26,897                                   | 30,025                        | 26,246                   | 73,968              | 51,171         | 163,137                  | 190,435                                  | 260,361                   | 381,813                  | 1,255,037                             | 28,068                                    | 1,283,105               |
| Assets Held in Trading Accounts.....                                                 | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| Premises & Fixed Assets.....                                                         | 461                     | 599                                      | 2,466                         | 1,556                    | 3,884               | 3,708          | 12,412                   | 23,953                                   | 5,322                     | 16,865                   | 71,226                                | 1,270                                     | 72,496                  |
| Other Real Estate Owned.....                                                         | 0                       | 1,578                                    | 3,403                         | 1,689                    | 2,803               | 919            | 19,869                   | 23,726                                   | 17,334                    | 48,132                   | 119,453                               | 815                                       | 120,268                 |
| Investments in Unconsolidated<br>Subsidiaries.....                                   | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| Customer's Liability on<br>Acceptances.....                                          | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| Intangible Assets.....                                                               | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 290                      | 0                                        | 0                         | 957                      | 1,247                                 | 0                                         | 1,247                   |
| Other Assets.....                                                                    | 191                     | 624                                      | 763                           | 1,635                    | 4,352               | 3,201          | 8,080                    | 6,131                                    | 8,792                     | 9,283                    | 43,052                                | 1,355                                     | 44,407                  |
| <b>TOTAL ASSETS.....</b>                                                             | <b>26,854</b>           | <b>51,255</b>                            | <b>57,621</b>                 | <b>67,604</b>            | <b>133,392</b>      | <b>164,533</b> | <b>314,279</b>           | <b>367,655</b>                           | <b>381,121</b>            | <b>561,844</b>           | <b>2,126,158</b>                      | <b>81,306</b>                             | <b>2,207,464</b>        |
| <b>LIABILITIES</b>                                                                   |                         |                                          |                               |                          |                     |                |                          |                                          |                           |                          |                                       |                                           |                         |
| Deposits of:                                                                         |                         |                                          |                               |                          |                     |                |                          |                                          |                           |                          |                                       |                                           |                         |
| Individuals-Partnerships-Corp.                                                       | 21,474                  | 36,686                                   | 38,829                        | 54,103                   | 109,299             | 94,308         | 108,776                  | 220,610                                  | 189,120                   | 265,124                  | 1,138,329                             | 69,473                                    | 1,207,802               |
| U.S. Government.....                                                                 | 164                     | 46                                       | 63                            | 64                       | 107                 | 342            | 680                      | 521                                      | 540                       | 326                      | 2,933                                 | 0                                         | 2,933                   |
| States and Political Subdiv...                                                       | 0                       | 2,797                                    | 679                           | 7,593                    | 4,376               | 50,878         | 22,544                   | 31,119                                   | 98,849                    | 8,994                    | 227,829                               | 1,000                                     | 228,829                 |
| Commercial Banks in the U.S...                                                       | 0                       | 1,681                                    | 5,070                         | 0                        | 0                   | 0              | 117,650                  | 41,228                                   | 22,824                    | 113,774                  | 302,227                               | 0                                         | 302,227                 |
| Other U.S. Depositories.....                                                         | 0                       | 6,723                                    | 9,964                         | 194                      | 0                   | 805            | 116,299                  | 62,941                                   | 3,547                     | 167,411                  | 367,884                               | 0                                         | 367,884                 |
| Certified & Official Checks...                                                       | 220                     | 255                                      | 552                           | 1,483                    | 1,681               | 1,164          | 2,330                    | 2,526                                    | 2,617                     | 1,701                    | 14,529                                | 0                                         | 14,529                  |
| All Other Deposits.....                                                              | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 5                         | 0                        | 5                                     | 1,893                                     | 1,898                   |
| <b>TOTAL DEPOSITS.....</b>                                                           | <b>21,858</b>           | <b>48,188</b>                            | <b>55,157</b>                 | <b>63,437</b>            | <b>115,543</b>      | <b>147,497</b> | <b>368,279</b>           | <b>358,945</b>                           | <b>317,502</b>            | <b>557,330</b>           | <b>2,053,736</b>                      | <b>72,366</b>                             | <b>2,126,102</b>        |
| a. Total DEMAND Deposits.....                                                        | 6,761                   | 5,892                                    | 10,866                        | 18,010                   | 33,065              | 21,651         | 34,541                   | 58,030                                   | 60,751                    | 30,103                   | 279,670                               | 1,893                                     | 281,563                 |
| b. Total TIME & SAVINGS Dep...                                                       | 15,097                  | 42,296                                   | 44,291                        | 45,427                   | 82,478              | 125,846        | 333,738                  | 300,915                                  | 256,751                   | 527,227                  | 1,774,066                             | 70,473                                    | 1,844,539               |
| Federal Funds Purchased<br>& Repurchased.....                                        | 0                       | 0                                        | 0                             | 0                        | 4,634               | 2,100          | 21,747                   | 300                                      | 27,757                    | 0                        | 56,538                                | 0                                         | 56,538                  |
| Demand Notes - U.S. Treasury....                                                     | 0                       | 0                                        | 0                             | 0                        | 650                 | 0              | 0                        | 0                                        | 0                         | 0                        | 650                                   | 0                                         | 650                     |
| Other Borrowed Money.....                                                            | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 67                       | 0                                        | 0                         | 97,532                   | 97,599                                | 0                                         | 97,599                  |
| Mortgage Indebtedness &<br>Obligations.....                                          | 141                     | 0                                        | 437                           | 0                        | 72                  | 0              | 8,672                    | 3,563                                    | 1,039                     | 6,917                    | 20,841                                | 279                                       | 21,120                  |
| Bank's Liability on<br>Acceptances.....                                              | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| Notes & Debentures.....                                                              | 0                       | 0                                        | 0                             | 0                        | 0                   | 2              | 0                        | 0                                        | 6,000                     | 1,301                    | 7,303                                 | 0                                         | 7,303                   |
| Other Liabilities.....                                                               | 127                     | 268                                      | 375                           | 264                      | 973                 | 1,988          | 1,927                    | 2,067                                    | 4,180                     | 8,293                    | 20,462                                | 489                                       | 20,951                  |
| <b>TOTAL LIABILITIES.....</b>                                                        | <b>22,126</b>           | <b>48,456</b>                            | <b>55,969</b>                 | <b>63,701</b>            | <b>121,872</b>      | <b>151,587</b> | <b>400,692</b>           | <b>364,875</b>                           | <b>356,478</b>            | <b>671,373</b>           | <b>2,257,129</b>                      | <b>73,134</b>                             | <b>2,330,263</b>        |
| Limited-Life Preferred Stock....                                                     | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| <b>EQUITY CAPITAL</b>                                                                |                         |                                          |                               |                          |                     |                |                          |                                          |                           |                          |                                       |                                           |                         |
| Perpetual Preferred Stock.....                                                       | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| Common Stock.....                                                                    | 3,333                   | 3,550                                    | 1,768                         | 527                      | 2,002               | 1,008          | 10,033                   | 4,688                                    | 2,604                     | 1,073                    | 30,586                                | 0                                         | 30,586                  |
| Surplus.....                                                                         | 1,666                   | 2,168                                    | 2,705                         | 1,806                    | 5,778               | 2,866          | -96,446                  | 16,423                                   | 4,567                     | 15,313                   | -43,154                               | 2,686                                     | -40,468                 |
| Undivided Profit & Capital<br>Reserves.....                                          | -271                    | -2,919                                   | -2,821                        | 1,570                    | 3,740               | 9,072          | 0                        | -18,331                                  | 17,472                    | -125,915                 | -118,403                              | 5,486                                     | -112,917                |
| Cumulative Foreign Currency<br>Transaction Adjustments.....                          | 0                       | 0                                        | 0                             | 0                        | 0                   | 0              | 0                        | 0                                        | 0                         | 0                        | 0                                     | 0                                         | 0                       |
| <b>TOTAL EQUITY CAPITAL.....</b>                                                     | <b>4,728</b>            | <b>2,799</b>                             | <b>1,652</b>                  | <b>3,903</b>             | <b>11,520</b>       | <b>12,946</b>  | <b>-86,413</b>           | <b>2,780</b>                             | <b>24,643</b>             | <b>-109,529</b>          | <b>-130,971</b>                       | <b>8,172</b>                              | <b>-122,799</b>         |
| <b>TOTAL LIABILITIES, LTD-LIFE PRE-<br/>  ferred Stock &amp; EQUITY CAPITAL.....</b> | <b>26,854</b>           | <b>51,255</b>                            | <b>57,621</b>                 | <b>67,604</b>            | <b>133,392</b>      | <b>164,533</b> | <b>314,279</b>           | <b>367,655</b>                           | <b>381,121</b>            | <b>561,844</b>           | <b>2,126,158</b>                      | <b>81,306</b>                             | <b>2,207,464</b>        |

Compiled quarterly by the Division of Banking, Securities and Corporations, State Office Building, P.O. Box D, Juneau, Alaska 99811.

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
DIVISION OF BANKING, SECURITIES AND CORPORATIONS  
J. Anthony Smith, Commissioner  
William F. Kirpatrick, Director of Banking

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES AND CAPITAL ACCOUNTS OF ALASKA NATIONAL BANKS  
AS OF SEPTEMBER 30, 1967  
(Dollar amount in thousands)

|                                                                                      | Rainier<br>Bank<br>Alaska,<br>N.A. | First<br>National<br>Bank of<br>Fairbanks | Alaska<br>National<br>Bank of<br>the North* | First<br>National<br>Bank of<br>Anchorage | National<br>Bank of<br>Alaska | TOTAL<br>NATIONAL<br>COMMERCIAL<br>BANKS | Federal<br>Bank of<br>Alaska,<br>S.B. | TOTAL<br>NATIONAL<br>BANKS |
|--------------------------------------------------------------------------------------|------------------------------------|-------------------------------------------|---------------------------------------------|-------------------------------------------|-------------------------------|------------------------------------------|---------------------------------------|----------------------------|
| <b>ASSETS</b>                                                                        |                                    |                                           |                                             |                                           |                               |                                          |                                       |                            |
| Cash & Balances Due from<br>Depository Institutions                                  |                                    |                                           |                                             |                                           |                               |                                          |                                       |                            |
| Non-Interest Bearing.....                                                            | 13,146                             | 14,206                                    | 24,750                                      | 55,201                                    | 88,088                        | 195,391                                  | 3,101                                 | 198,492                    |
| Interest Bearing.....                                                                | 801                                | 24                                        | 0                                           | 76                                        | 39,000                        | 39,901                                   | 2,847                                 | 42,748                     |
| Securities.....                                                                      | 2,403                              | 50,092                                    | 44,884                                      | 337,034                                   | 325,485                       | 759,898                                  | 91,440                                | 851,338                    |
| Federal Funds Sold & Securities<br>Purchased to Resell.....                          | 0                                  | 0                                         | 13,800                                      | 90,000                                    | 28,000                        | 131,800                                  | 0                                     | 131,800                    |
| Loans & Leases, Net.....                                                             | 112,942                            | 134,728                                   | 100,642                                     | 280,619                                   | 700,646                       | 1,329,577                                | 245,282                               | 1,574,859                  |
| Assets Held in Trading Accounts.....                                                 | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| Premises & Fixed Assets.....                                                         | 4,309                              | 3,593                                     | 5,144                                       | 30,152                                    | 41,789                        | 84,987                                   | 8,336                                 | 93,323                     |
| Other Real Estate Owned.....                                                         | 4,571                              | 6,699                                     | 9,036                                       | 4,436                                     | 2,639                         | 27,381                                   | 17,540                                | 44,921                     |
| Investments in Unconsolidated<br>Subsidiaries.....                                   | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 1,692                                 | 1,692                      |
| Customer's Liability on<br>Acceptances.....                                          | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| Intangible Assets.....                                                               | 3,005                              | 0                                         | 0                                           | 0                                         | 0                             | 3,005                                    | 192                                   | 3,197                      |
| Other Assets.....                                                                    | 2,452                              | 4,915                                     | 4,907                                       | 12,630                                    | 19,032                        | 43,936                                   | 12,932                                | 56,868                     |
| <b>TOTAL ASSETS.....</b>                                                             | <b>143,629</b>                     | <b>214,257</b>                            | <b>203,163</b>                              | <b>810,148</b>                            | <b>1,244,679</b>              | <b>2,615,876</b>                         | <b>383,362</b>                        | <b>2,999,238</b>           |
| <b>LIABILITIES</b>                                                                   |                                    |                                           |                                             |                                           |                               |                                          |                                       |                            |
| Deposits of:                                                                         |                                    |                                           |                                             |                                           |                               |                                          |                                       |                            |
| Individuals-Partnerships-Corp.                                                       | 102,065                            | 115,119                                   | 93,237                                      | 481,877                                   | 807,156                       | 1,599,454                                | 171,240                               | 1,770,694                  |
| U.S. Government.....                                                                 | 389                                | 29                                        | 256                                         | 5,834                                     | 3,617                         | 10,125                                   | 0                                     | 10,125                     |
| States and Political Subdiv...                                                       | 7,317                              | 40,868                                    | 99,602                                      | 37,709                                    | 111,308                       | 296,804                                  | 28,800                                | 325,604                    |
| Commercial Banks in the U.S.                                                         | 15,506                             | 10,079                                    | 21                                          | 0                                         | 109                           | 25,715                                   | 1,985                                 | 27,700                     |
| Other U.S. Depositories.....                                                         | 600                                | 1,610                                     | 0                                           | 0                                         | 0                             | 2,210                                    | 10,011                                | 12,221                     |
| Certified & Official Checks...                                                       | 944                                | 1,366                                     | 2,148                                       | 10,754                                    | 10,969                        | 26,181                                   | 0                                     | 26,181                     |
| All Other Deposits.....                                                              | 0                                  | 0                                         | 4,992                                       | 7                                         | 494                           | 5,493                                    | 0                                     | 5,493                      |
| <b>TOTAL DEPOSITS.....</b>                                                           | <b>126,821</b>                     | <b>169,071</b>                            | <b>200,256</b>                              | <b>536,181</b>                            | <b>933,653</b>                | <b>1,965,982</b>                         | <b>212,036</b>                        | <b>2,178,018</b>           |
| a. Total DEMAND Deposits.....                                                        | 42,805                             | 43,884                                    | 52,699                                      | 206,049                                   | 273,963                       | 619,400                                  | 36,210                                | 655,610                    |
| b. Total TIME & SAVINGS Dep...                                                       | 84,016                             | 125,187                                   | 147,557                                     | 330,132                                   | 659,690                       | 1,346,582                                | 175,826                               | 1,522,408                  |
| Federal Funds Purchased<br>& Repurchased.....                                        | 3,500                              | 22,396                                    | 5,277                                       | 120,023                                   | 133,731                       | 284,927                                  | 0                                     | 284,927                    |
| Demand Notes - U.S. Treasury....                                                     | 0                                  | 0                                         | 0                                           | 10,003                                    | 6,684                         | 16,687                                   | 0                                     | 16,687                     |
| Other Borrowed Money.....                                                            | 0                                  | 0                                         | 0                                           | 0                                         | 275                           | 275                                      | 153,204                               | 153,479                    |
| Mortgage Indebtedness &<br>Obligations.....                                          | 547                                | 0                                         | 0                                           | 0                                         | 0                             | 547                                      | 0                                     | 547                        |
| Bank's Liability on<br>Acceptances.....                                              | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| Notes & Debentures.....                                                              | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| Other Liabilities.....                                                               | 509                                | 1,669                                     | 3,484                                       | 4,984                                     | 17,167                        | 27,813                                   | 7,491                                 | 35,304                     |
| <b>TOTAL LIABILITIES.....</b>                                                        | <b>131,377</b>                     | <b>193,136</b>                            | <b>209,017</b>                              | <b>671,191</b>                            | <b>1,091,510</b>              | <b>2,296,231</b>                         | <b>372,731</b>                        | <b>2,668,962</b>           |
| Limited-Life Preferred Stock....                                                     | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| <b>EQUITY CAPITAL</b>                                                                |                                    |                                           |                                             |                                           |                               |                                          |                                       |                            |
| Perpetual Preferred Stock.....                                                       | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| Common Stock.....                                                                    | 200                                | 1,000                                     | 2,492                                       | 10,000                                    | 60,000                        | 73,692                                   | 0                                     | 73,692                     |
| Surplus.....                                                                         | 12,749                             | 5,000                                     | 10,790                                      | 20,000                                    | 46,000                        | 94,539                                   | 0                                     | 94,539                     |
| Undivided Profit & Capital<br>Reserves.....                                          | -697                               | 15,121                                    | -19,136                                     | 108,957                                   | 47,169                        | 151,414                                  | 10,631                                | 162,045                    |
| Cumulative Foreign Currency<br>Transaction Adjustments.....                          | 0                                  | 0                                         | 0                                           | 0                                         | 0                             | 0                                        | 0                                     | 0                          |
| <b>TOTAL EQUITY CAPITAL.....</b>                                                     | <b>12,252</b>                      | <b>21,121</b>                             | <b>-5,854</b>                               | <b>138,957</b>                            | <b>153,169</b>                | <b>319,645</b>                           | <b>10,631</b>                         | <b>330,276</b>             |
| <b>TOTAL LIABILITIES, LTD-LIFE PRE-<br/>  ferred Stock &amp; EQUITY CAPITAL.....</b> | <b>143,629</b>                     | <b>214,257</b>                            | <b>203,163</b>                              | <b>810,148</b>                            | <b>1,244,679</b>              | <b>2,615,876</b>                         | <b>383,362</b>                        | <b>2,999,238</b>           |

Compiled quarterly by the Division of Banking, Securities and Corporations, State Office Building, P.O. Box D, Juneau, Alaska 99811.  
\* Alaska National Bank of the North closed 10/22/87. Figures courtesy of FDIC

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
DIVISION OF BANKING, SECURITIES AND CORPORATIONS  
J. Anthony Smith, Commissioner  
Willis F. Kirkpatrick, Director of Banking

COMPARATIVE STATEMENT OF CONDITION OF BANKS IN ALASKA AS OF SEPTEMBER 30, 1987  
(Comparison 9/30/86 to 9/30/87)  
(Dollar amount in thousands)

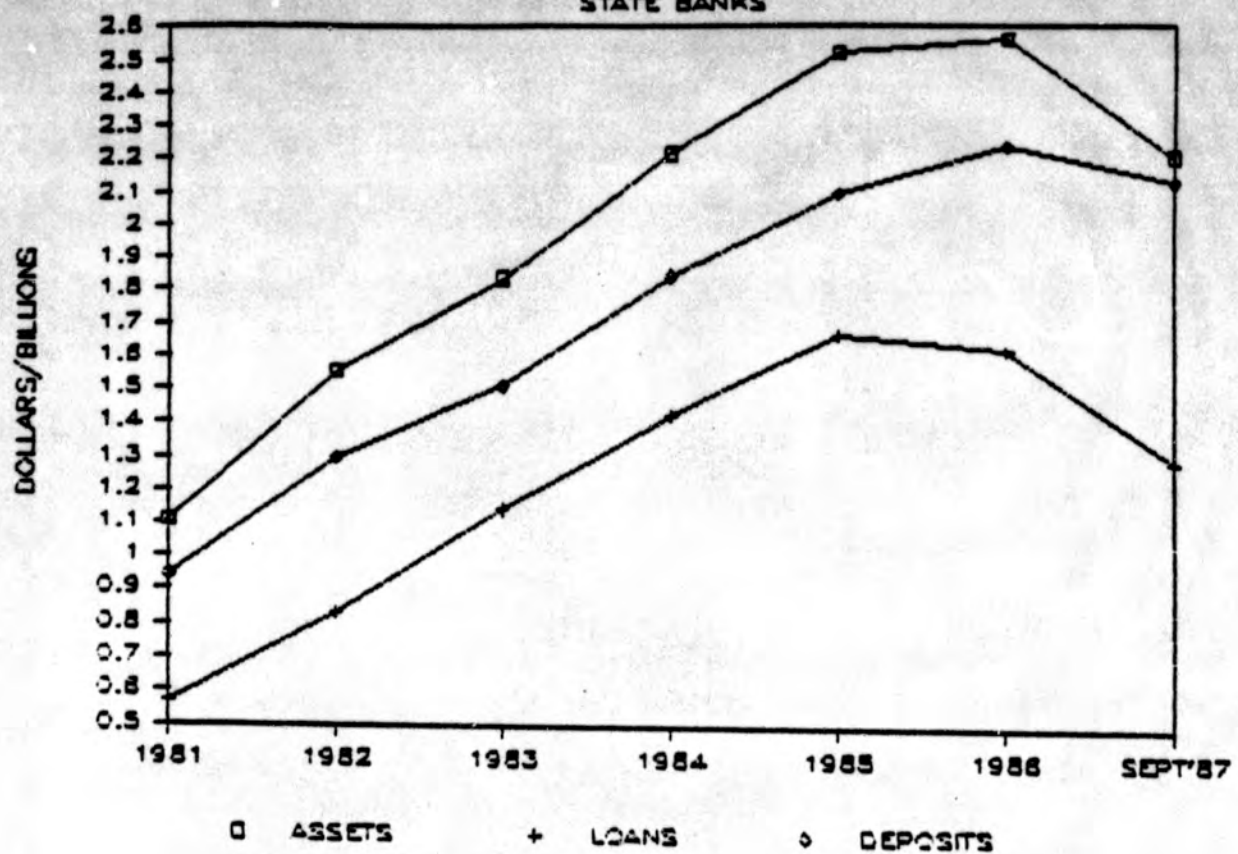
| ASSETS                                                                   | STATE BANKS      |               | NATIONAL BANKS   |                | 9-30-86<br>TOTAL<br>ALL BANKS | 9-30-87<br>TOTAL<br>ALL BANKS | DOLLAR<br>INCREASE<br>(DECREASE) | PERCENTAGE<br>INCREASE<br>(DECREASE) |
|--------------------------------------------------------------------------|------------------|---------------|------------------|----------------|-------------------------------|-------------------------------|----------------------------------|--------------------------------------|
|                                                                          | COMMERCIAL       | SAVINGS       | COMMERCIAL       | SAVINGS        |                               |                               |                                  |                                      |
| Cash & Balances Due from<br>Depository Institutions                      |                  |               |                  |                |                               |                               |                                  |                                      |
| Non-Interest Bearing.....                                                | 101,793          | 1,420         | 195,391          | 3,101          | 364,464                       | 301,705                       | -62,759                          | -17.22%                              |
| Interest Bearing.....                                                    | 6,855            | 4,772         | 39,901           | 2,847          | 71,283                        | 54,375                        | -16,908                          | -23.72%                              |
| Securities.....                                                          | 381,150          | 37,106        | 759,898          | 91,440         | 1,053,122                     | 1,269,594                     | 216,472                          | 20.56%                               |
| Federal Funds Sold & Securities<br>Purchased to Resell.....              | 146,345          | 6,500         | 131,800          | 0              | 276,766                       | 284,645                       | 7,879                            | 2.85%                                |
| Loans & Leases, Net.....                                                 | 1,255,037        | 28,068        | 1,329,577        | 245,282        | 3,468,436                     | 2,857,964                     | -610,472                         | -17.60%                              |
| Assets in Trading Accounts.....                                          | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| Premises & Fixed Assets.....                                             | 71,226           | 1,270         | 84,987           | 8,336          | 168,605                       | 165,819                       | -2,786                           | -1.65%                               |
| Other Real Estate Owned.....                                             | 119,453          | 815           | 27,381           | 17,540         | 98,314                        | 165,189                       | 66,875                           | 68.02%                               |
| Investments in Unconsolidated<br>Subsidiaries.....                       | 0                | 0             | 0                | 1,692          | 2,085                         | 1,692                         | -393                             | -18.85%                              |
| Customer's Liability on<br>Acceptances.....                              | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| Intangible Assets.....                                                   | 1,247            | 0             | 3,005            | 192            | 4,530                         | 4,444                         | -86                              | -1.90%                               |
| Other Assets.....                                                        | 43,052           | 1,355         | 43,936           | 12,932         | 108,428                       | 101,275                       | -7,153                           | -6.60%                               |
| <b>TOTAL ASSETS.....</b>                                                 | <b>2,126,158</b> | <b>81,306</b> | <b>2,615,876</b> | <b>383,362</b> | <b>5,617,033</b>              | <b>5,206,702</b>              | <b>-410,331</b>                  | <b>-7.31%</b>                        |
| <b>LIABILITIES</b>                                                       |                  |               |                  |                |                               |                               |                                  |                                      |
| Deposits of:                                                             |                  |               |                  |                |                               |                               |                                  |                                      |
| Indiv.-Partnerships-Corp..                                               | 1,138,329        | 69,473        | 1,599,454        | 171,240        | 3,110,300                     | 2,978,496                     | -131,804                         | -4.24%                               |
| U.S. Government.....                                                     | 2,933            | 0             | 10,125           | 0              | 24,330                        | 13,058                        | -11,272                          | -46.33%                              |
| States & Political Subdiv....                                            | 227,829          | 1,000         | 296,804          | 28,800         | 774,753                       | 554,433                       | -220,320                         | -28.44%                              |
| Commercial Banks in the U.S.                                             | 302,227          | 0             | 25,715           | 1,985          | 221,469                       | 329,927                       | 108,458                          | 48.97%                               |
| Other U.S. Depositories.....                                             | 367,884          | 0             | 2,210            | 10,011         | 225,014                       | 380,105                       | 155,091                          | 68.93%                               |
| Certified & Official Checks.                                             | 14,529           | 0             | 26,181           | 0              | 50,647                        | 40,710                        | -9,937                           | -19.62%                              |
| All Other Deposits.....                                                  | 5                | 1,893         | 5,493            | 0              | 3,592                         | 7,391                         | 3,799                            | 105.76%                              |
| <b>Total DEPOSITS.....</b>                                               | <b>2,053,736</b> | <b>72,366</b> | <b>1,965,982</b> | <b>212,036</b> | <b>4,410,105</b>              | <b>4,304,120</b>              | <b>-105,985</b>                  | <b>-2.40%</b>                        |
| a. Total DEMAND Deposits.....                                            | 279,670          | 1,893         | 619,400          | 36,210         | 1,004,812                     | 937,173                       | -67,639                          | -6.73%                               |
| b. Total TIME & SAVINGS Dep.                                             | 1,774,066        | 70,473        | 1,346,582        | 175,826        | 3,405,293                     | 3,366,947                     | -38,346                          | -1.13%                               |
| Federal Funds Purchased &<br>Repurchased.....                            | 56,538           | 0             | 284,927          | 0              | 348,899                       | 341,465                       | -7,434                           | -2.13%                               |
| Demand Notes-U.S. Treasury....                                           | 650              | 0             | 16,687           | 0              | 16,613                        | 17,337                        | 724                              | 4.36%                                |
| Other Borrowed Money.....                                                | 97,599           | 0             | 275              | 153,204        | 249,568                       | 251,078                       | 1,510                            | 0.61%                                |
| Mortgage Indebtedness &<br>Obligations.....                              | 20,841           | 279           | 547              | 0              | 21,256                        | 21,667                        | 411                              | 1.93%                                |
| Bank's Liability on<br>Acceptances.....                                  | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| Notes & Debentures.....                                                  | 7,303            | 0             | 0                | 0              | 1,395                         | 7,303                         | 5,908                            | 423.51%                              |
| Other Liabilities.....                                                   | 20,462           | 489           | 27,813           | 7,491          | 64,543                        | 56,255                        | -8,288                           | -12.84%                              |
| <b>TOTAL LIABILITIES.....</b>                                            | <b>2,257,129</b> | <b>73,134</b> | <b>2,296,231</b> | <b>372,731</b> | <b>5,112,379</b>              | <b>4,999,225</b>              | <b>-113,154</b>                  | <b>-2.21%</b>                        |
| Ltd.-Life Preferred Stock.....                                           | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| <b>EQUITY CAPITAL</b>                                                    |                  |               |                  |                |                               |                               |                                  |                                      |
| Perpetual Preferred Stock.....                                           | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| Common Stock.....                                                        | 30,586           | 0             | 73,692           | 0              | 105,707                       | 104,278                       | -1,429                           | -1.35%                               |
| Surplus.....                                                             | -43,154          | 2,686         | 94,539           | 0              | 143,845                       | 54,071                        | -89,774                          | -62.41%                              |
| Undivided Profit & Capital<br>Reserves.....                              | -118,403         | 5,486         | 151,414          | 10,631         | 255,102                       | 49,128                        | -205,974                         | -80.74%                              |
| Cumulative Foreign Currency<br>Transaction Adjustments.....              | 0                | 0             | 0                | 0              | 0                             | 0                             | 0                                | 0.00%                                |
| <b>TOTAL EQUITY CAPITAL.....</b>                                         | <b>-130,971</b>  | <b>8,172</b>  | <b>319,645</b>   | <b>10,631</b>  | <b>504,654</b>                | <b>207,477</b>                | <b>-297,177</b>                  | <b>-58.89%</b>                       |
| <b>TOTAL LIABILITIES, LTD.-LIFE<br/>PREF. STOCK &amp; EQUITY CAPITAL</b> | <b>2,126,158</b> | <b>81,306</b> | <b>2,615,876</b> | <b>383,362</b> | <b>5,617,033</b>              | <b>5,206,702</b>              | <b>-410,331</b>                  | <b>-7.31%</b>                        |

Compiled quarterly by the Division of Banking, Securities and Corporations, State Office Building, P.O. Box D, Juneau, Alaska 99811.



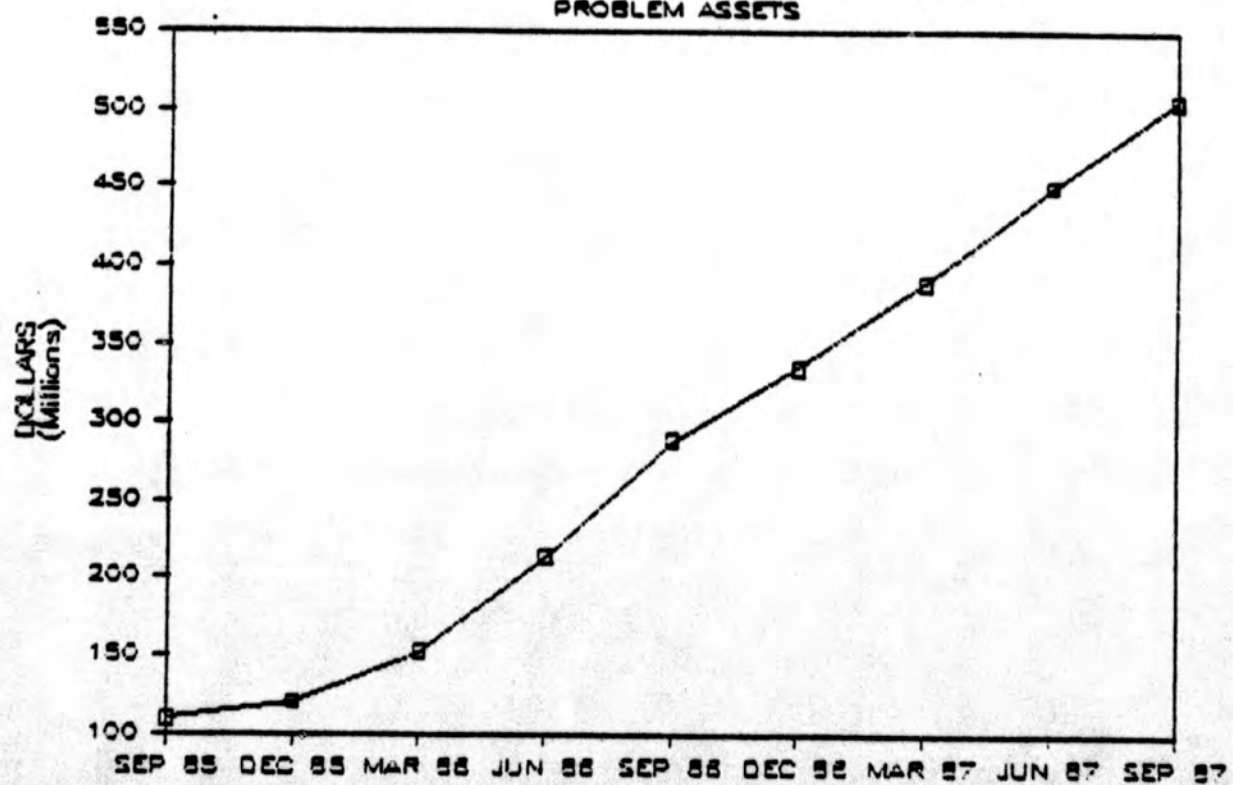
# ASSETS—LOANS—DEPOSITS

STATE BANKS



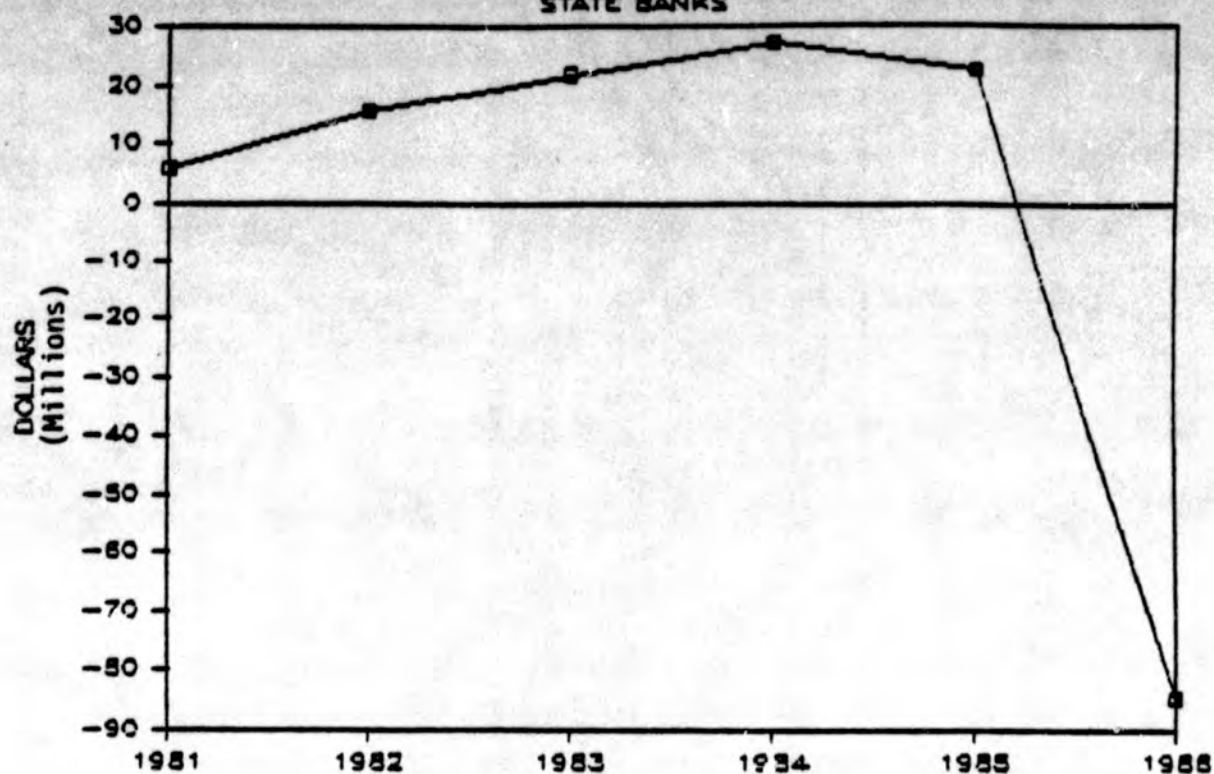
# FINANCIAL INSTITUTIONS

PROBLEM ASSETS



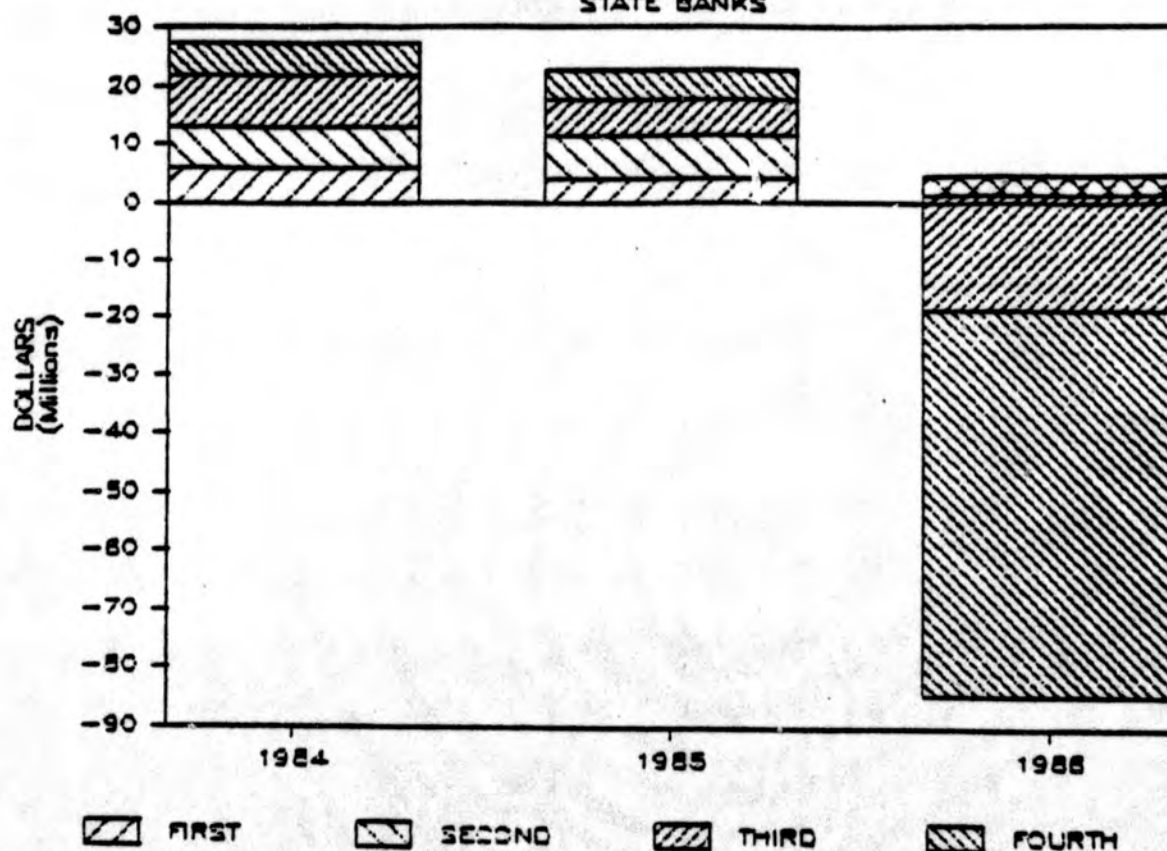
# YEAR END EARNINGS

STATE BANKS



# QUARTERLY EARNINGS

STATE BANKS



## STATE BANKS

### ALASKA CONTINENTAL BANK

#### Anchorage

Main Office  
(1016 W. Northern Lights Blvd.)  
Anchorage, Alaska 99503  
Telephone: (907) 561-5250

Lake Otis Branch and Real Estate Department  
2213 E. Tudor Road  
Anchorage, Alaska 99507  
Telephone: (907) 562-0880

Huffman Branch  
1301 Huffman Road  
Anchorage, Alaska 99511  
Telephone: (907) 345-1161

### ALASKA MUTUAL BANK

#### Anchorage

Main Office  
Minnesota-Benson Branch  
(1500 W. Benson Blvd.)  
P.O. Box 99003  
Anchorage, Alaska 99509-9003  
Telephone: (907) 258-7890

Fifth Avenue Plaza Branch  
(601 West 5th Avenue)  
P.O. Box 99003  
Anchorage, Alaska 99509-9003  
Telephone: (907) 274-3561

DeBarr Branch  
4020 DeBarr Avenue  
Anchorage, Alaska 99510  
Telephone: (907) 333-3011

O'Malley Branch  
1040 O'Malley Road  
Anchorage, Alaska 99515  
Telephone: (907) 349-5800

#### Eagle River

Eagle River Branch  
(Eagle Financial Center)  
P.O. Box 1068  
Eagle River, Alaska 99577  
Telephone: (907) 694-9571

#### Wasilla

Wasilla Branch  
1800 E. Parks Highway  
P.O. Box 874329  
Wasilla, Alaska 99687  
Telephone: (907) 376-3050

### ALASKA PACIFIC BANK

#### Anchorage

Main Office  
(101 West Benson Blvd.)  
P.O. Box 420  
Anchorage, Alaska 99510  
Telephone: (907) 562-6100

Old City Hall Branch  
(524 West 4th Avenue)  
P.O. Box 420  
Anchorage, Alaska 99510  
Telephone: (907) 562-6100

Southside Financial Center  
(9041 Old Seward Highway)  
P.O. Box 420  
Anchorage, Alaska 99510  
Telephone: (907) 562-6100

### ALASKA STATEBANK

#### Anchorage

Main Office  
(442 West 5th Avenue)  
P.O. Box 100240  
Anchorage, Alaska 99510  
Telephone: (907) 277-5661

Mountain View Branch  
4010 Mountain View Drive  
Drawer 8970  
Anchorage, Alaska 99508  
Telephone: (907) 277-5661

Northern Lights Branch  
310 E. Northern Lights Blvd.  
Anchorage, Alaska 99503  
Telephone: (907) 277-5661

Tudor Road Branch  
2545 East Tudor Road  
Anchorage, Alaska 99509  
Telephone: (907) 277-5661

#### Fairbanks

Fairbanks Main Branch  
(5th Avenue on the Mall)  
P.O. Box 769  
Fairbanks, Alaska 99707  
Telephone: (907) 452-1221

Airport Way Branch  
1989 Airport Way  
Fairbanks, Alaska 99701  
Telephone: (907) 452-8321

#### Kenai

Kenai Branch  
(Kenai Spur Road)  
Drawer 910  
Kenai, Alaska 99611  
Telephone: (907) 283-7542

### ALASKA STATEBANK continued

#### Unalaska

Unalaska Branch  
(Unisez Mall)  
P.O. Box 77  
Unalaska, Alaska 99685  
Telephone: (907) 581-1300

### THE B.M. BEHREND'S BANKS

#### Juneau

Main Office  
(234 Seward Street)  
P.O. Box 34479  
Juneau, Alaska 99803-4479  
Telephone: (907) 586-6800

Mendenhall Branch  
(8000 Glacier Highway)  
P.O. Box 34479  
Juneau, Alaska 99803-4479  
Telephone: (907) 789-0101

#### Hoonah

Hoonah Branch  
(Main Street)  
P.O. Box 198  
Hoonah, Alaska 99829  
Telephone: (907) 945-3297

#### Klawock

Klawock Branch  
(Klawock Heenya Mall)  
P.O. Box 49  
Klawock, Alaska 99925  
Telephone: (907) 755-2956

#### Yakutat

Yakutat Branch  
(Main Street)  
P.O. Box 334  
Yakutat, Alaska 99689  
Telephone: (907) 784-3204

### DENALI STATE BANK

#### Fairbanks

Main Office  
119 North Cushman  
P.O. Box 74568  
Fairbanks, Alaska 99707  
Telephone: (907) 456-1400



## STATE BANKS

### FIRST BANK

#### Craig

Prince of Wales Branch  
(3rd & Main Street)  
P.O. Box 74  
Craig, Alaska 99921  
Telephone: (907) 828-3254

#### Ketchikan

Main Office  
(331 Dock Street)  
P.O. Box 7920  
Ketchikan, Alaska 99901  
Telephone: (907) 225-6101

Totem Branch  
(2530 Tongass Avenue)  
P.O. Box 5100  
Ketchikan, Alaska 99901  
Telephone: (907) 225-6101

Narrows Branch  
(800 Stedman Street)  
P.O. Box 7920  
Ketchikan, Alaska 99901  
Telephone: (907) 225-6101

#### Petersburg

Petersburg Branch  
(110 Harbor Way)  
P.O. Box 1109  
Petersburg, Alaska 99833  
Telephone: (907) 772-4277

#### Sitka

Sitka Branch  
(202 Lake Street)  
P.O. Box 1829  
Sitka, Alaska 99835  
Telephone: (907) 747-6636

### FIRST INTERSTATE BANK OF ALASKA

#### Anchorage

Main Office  
(716 West 4th Avenue)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Boniface Mall Branch  
(5530 E. Northern Lights Blvd.)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

C Street Branch  
(3000 "C" Street)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

### FIRST INTERSTATE BANK OF ALASKA continued

Dimond Branch  
(800 East Dimond Blvd.)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Drive-In Branch  
(8th Avenue at H Street)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Eide Street Branch  
(Benson at Eide Street)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Jewel Lake Branch  
9170 Jewel Lake Road  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

O'Malley Branch  
(10900 O'Malley Centre Drive)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Tudor Branch  
(4500 Diplomacy Drive)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

Turnagain Branch  
(2810 Minnesota Drive)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 276-7200

#### Eagle River

Eagle River Branch  
(Mile 14, Old Glenn Highway)  
P.O. Box 107012  
Anchorage, Alaska 99510-7012  
Telephone: (907) 694-2021

#### Fairbanks

Fairbanks Branch  
520 Fifth Avenue  
Fairbanks, Alaska 99701  
Telephone: (907) 456-6127

#### Homer

Homer Branch  
4014 Lake Street  
Homer, Alaska 99603  
Telephone: (907) 235-8146

#### Kenai

Kenai Branch  
130 Willow Street, Unit #1  
Kenai, Alaska 99611  
Telephone: (907) 283-5798

### FIRST INTERSTATE BANK OF ALASKA continued

#### King Salmon

King Salmon Branch  
King Salmon Mall  
Main Street & Lake Camp Rd  
King Salmon, Alaska 99613  
Telephone: (907) 246-3306

#### Palmer

Palmer Branch  
705 South Bailey  
Palmer, Alaska 99645  
Telephone: (907) 745-2161

#### Soldotna

Soldotna Branch  
44501 Sterling Highway  
Soldotna, Alaska 99669  
Telephone: (907) 262-4468

#### Wasilla

Wasilla Branch  
P.O. Box 871725  
Wasilla, Alaska 99687  
Telephone: (907) 376-5338

### MT. MCKINLEY MUTUAL SAVINGS BANK

#### Fairbanks

(530 Fourth Avenue)  
P.O. Box 73880  
Fairbanks, Alaska 99707  
Telephone: (907) 452-1751

### UNITED BANK ALASKA

#### Anchorage

Main Office  
(440 East 36th Avenue)  
Pouch 7-059  
Anchorage, Alaska 99510  
Telephone: (907) 276-1911

Downtown Branch  
(645 G Street)  
Pouch 7-059  
Anchorage, Alaska 99510  
Telephone: (907) 276-1911

United Bank Alaska Mortgage  
Company, Inc.  
Commercial Banking Center  
Branch  
440 East 36th Ave., 4th Floor.  
Anchorage, Alaska 99503  
Telephone: (907) 276-1911

## STATE BANKS

### UNITED BANK ALASKA continued

#### Bethel

Yukon-Kuskokwim-Delta  
Branch  
P.O. Box 884  
Bethel, Alaska 99559  
Telephone: (907) 543-3875

#### Fairbanks

Interior Region Branch  
714 4th Avenue  
P.O. Box 73958  
Fairbanks, Alaska 99707  
Telephone: (907) 452-1428

#### Nome

Nome Branch  
Northwest Regional Office  
P.O. Box 1690  
Nome, Alaska 99762  
Telephone: (907) 443-5426

#### Wasilla

Wasilla Branch  
(Lakeview Professional Bldg.)  
P.O. Box 872809  
Wasilla, Alaska 99687  
Telephone: (907) 376-4147

#### Dillingham

Dillingham Branch  
(Main Street across N & N)  
P.O. Box 570  
Dillingham, Alaska 99576  
Telephone: (907) 842-2221

### UNITED BANK ALASKA SOUTHEASTERN

#### Juneau

Main Office  
(9112 Mendenhall Mall Road)  
P.O. Box 2016  
Juneau, Alaska 99803  
Telephone: (907) 789-2299

#### Ketchikan

Ketchikan Branch  
(2040 Sea Level Drive)  
P.O. Box 7840  
Ketchikan, Alaska 99901  
Telephone: (907) 225-9844

**STATE SAVINGS AND LOANS ASSOCIATIONS**

**FRONTIER SAVINGS AND LOAN**

**Fairbanks**

Main Office  
(301 Cushman)  
P.O. Box 74320  
Fairbanks, Alaska 99707  
Telephone: (907) 456-2222

**HOME SAVINGS AND LOAN**

**Anchorage**

Main Office  
(1001 East Benson Blvd.)  
P.O. Box 7008  
Anchorage, Alaska 99510  
Telephone: (907) 276-1451

**Wasilla**

Wasilla Branch  
P.O. Box 874510  
Wasilla, Alaska 99687  
Telephone: (907) 376-1520  
or 1521



**SMALL LOAN COMPANIES**

**NORWEST FINANCIAL, INC.**

**Anchorage**

Northway Business Park  
713 Northway Drive  
Anchorage, Alaska 99508  
Telephone: (907) 272-6584

(300 W. 36th Avenue)  
Plaza Mall  
P.O. Box 9-2144  
Anchorage, Alaska 99509  
Telephone: (907) 561-1337

**Fairbanks**

(536 Fourth Avenue)  
Parrish Building  
PO Box 4169  
Fairbanks, Alaska 99701  
Telephone: (907) 456-7781

#### PREMIUM FINANCE COMPANIES

**AFCO**  
3500 188th Street S.W.  
Suite 201  
Lynnwood, Washington 98037  
Telephone: (206) 788-7099

**AI CREDIT CORPORATION**  
3699 Wilshire Boulevard  
Los Angeles, California 90010  
Telephone: (213) 480-3669

**BERJAC OF OREGON**  
2620 River Road No. 201  
PO Box 726  
Eugene, Oregon 97440  
Telephone: (503) 688-1322

**BERJAC OF PORTLAND**  
207 S.E. Oak, Suite 200  
P.O. Box 129  
Hillsboro, Oregon 97123  
Telephone: (503) 640-4122

**BORG-WARNER INSURANCE  
FINANCE CORPORATION**  
720 Olive Way, Suite 705  
Seattle, Washington 98101  
Telephone: (206) 624-8182

**INAC CORPORATION OF CALIF.**  
3333 Wilshire Blvd.  
P.O. Box 76979  
Los Angeles, California 90076-0979  
Telephone: (213) 739-4743

**MONY CREDIT CORPORATION**  
1740 Broadway  
New York, New York 10019  
Telephone: (212) 708-2691

**LAKE UNION PREMIUM FINANCE  
COMPANY**  
P.O. Box 31043  
Wallingford Station  
Seattle, Washington 98103  
Telephone: (206) 682-3366

**NORTHERN INVESTORS CO.**  
113 Battery Street  
Seattle, Washington 98121  
Telephone: (206) 682-6171

**PREFCO, INC.**  
Main Office  
301 Seward Street  
Juneau, Alaska 99801  
Telephone: (907) 586-2414

Branch Office  
Nugget Mall  
8745 Glacier Highway, Suite 382  
Juneau, Alaska 99801  
Telephone: (907) 789-2446

**TIFCO PREMIUMS, INC.**  
2490 Columbia Center  
701 Fifth Avenue  
Seattle, Washington 98104-7090  
Telephone: (206) 343-2003

## STATE CREDIT UNIONS IN ALASKA

### FRONTIER ALASKA STATE CREDIT UNION

#### Anchorage

Main Office  
3500 Elde Street  
Anchorage, Alaska 99503  
Telephone: (907) 563-3786  
Gen. Manager: Ms. Leslie Ellis

Dimond Branch  
300 E. Dimond Blvd.  
Anchorage, Alaska 99515  
Telephone: (907) 344-5144

University of Alaska  
Campus Branch  
3200 Providence Drive  
Anchorage, Alaska 99508  
Telephone: (907) 561-3151

#### Eagle River

Eagle River Branch  
16515 Centerfield Drive  
Eagle River, Alaska 99577  
Telephone: (907) 694-5444

#### Soldotna

Soldotna Branch  
131-A Warehouse Street  
Soldotna, Alaska 99669  
Telephone: (907) 262-7600

### NORTH COUNTRY CREDIT UNION

#### Fairbanks

Main Office  
901 First Avenue  
Fairbanks, Alaska 99701  
Telephone: (907) 456-2613  
Manager: Jim Haselberger

North Pole Branch  
249 N. Santa Claus Lane  
North Pole, Alaska 99705  
Telephone: (907) 488-7300



✓ COPY OF AIDRA TO ANN RINGSTAD

(S) JCR 2/24/88

1. STARTS - SB 471 -

JOHANSON  
KALY

DOS BILL TRANSFER LIABILITY FROM BANK TO AIDRA?

(a) AIDRA PARTICIPATION PROVIDES ADDITIONAL LIQUIDITY.

(b) DOS CAUSE SHARING OF RISK.

2. WALTON INQUIRY

CASH DRAIN ON REAL ESTATE REPOSSED

\* FDIC COLLECTION PROCEDURES ON  
ASSUMED PORTFOLIO FOR AIDRA  
SUBSIDIZED LOANS.

SB 471 -

(H) JCR 2/25/88

WALTON - ASSURED NO DUMPING

- SUPPORTS -

HB 402 RAISES IN LIMITS { SUPPORTS LIMIT INCREASE, } CHGS RATES { CHGS DUE DATE } 70

- CRA HOUSING ASST DIV LNS DON'T ALLOW  
WORKOUTS.

OPINION  
HOLLING  
HOLLING

FIRST FID  
1300K

- FAULTY APPRAISALS BECAUSE TAX INCREASES LESSEN  
INVESTMENT GAIN.

- SUPPORTS ASHA STOCK INCREASE.



Senate Community and  
Regional Affairs Committee

Senator Arliss Sturgulewski, Chairman

BRIDGE BANK -

FRANK McQUARY

346-1050

Anchorage.

---

CAN YOU CALL  
HIM TODAY OR  
TOMORROW - HE  
NEEDS TO DISCUSS  
SOME THINGS WITH YOU -  
WOULDN'T SAY WHAT.

gt

- MASSIVE SUBSIDY HOUSING IN ALACH.
- OPPOSES PULLING SUPPLY OFF MARKET.
- SUPPORTS NATURAL SHAKE-DOWN
- OPPOSES AEDC ACCEPTING FDIC APPRAISALS
- FINANCIAL TRAPDOOR = 2 BILLION POTENTIAL 2.5
- \* - SUPPORTS REDUCED INTEREST RATES FOR STATE  
LOANS INCLUDING HAD - WORKBOOTS
- COMPLAINING DISCOUNTS DUMPING
- WANTS STATE TO PROVIDE OPPORTUNITIES -  
TAX CREDITS, WORK CREDITS, AVAILABILITY,  
JOB CREATION, HOMEPORTING, SKI RESORT, OLYMPICS
- BELIEVES NORTH SLOPE DEVELOPMENT WILL CONTINUE  
WHATEVER ROYALTY, TAX POLICIES ARE IN  
PLACE.
- DOESN'T SUPPORT AEDC CONCEPT UNLESS MATCHES  
INDUSTRY CRITERIA. SHOULD REQUIRE REQUISITE  
INTERESTS. DOESN'T SUPPORT SUBSIDIZED INTEREST.

2 MEETINGS NEXT WK.

FDIC, HALLWOOD, COX (RAISED BILL)

1. FDIC + COX

2. DECISIONS

RETURN HALLWOOD



# Anchorage Daily News

VOL. XLIII, NO. 51 60 PAGES

ANCHORAGE, ALASKA, SATURDAY, FEBRUARY 20, 1988

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 Ton 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.



# Alaska State Legislature

SENATOR JIM DUNCAN

P. O. BOX V JUNEAU, ALASKA 99811

(907) 465-4766

COMMITTEES:  
FINANCE  
RESOURCES  
BUDGET AND AUDIT

## MEMORANDUM

February 11, 1988

To: Senator Jones and Senator Sturgulewski, Co-Chairpersons  
Senate Joint Committee on Economic Recovery

From: Senator Jim Duncan

Subject: Resource Development Legislation

Thank you for requesting a list of the resource development legislation I am interested in seeing enacted this session. I have introduced three such bills, they are:

SB 168 Authorizing Municipal Port Authorities

SB 344 Use and Registration of Subcontractors

SB 367 Municipal Tax Exemption, State Resources

Please let me or Dale Staley of my staff know if I can provide you with any information on this legislation or assist in your efforts to stimulate economic recovery throughout the state.

## Senator John Binkley

---

Senate Finance Committee

P.O. Box V • Juneau, Alaska 99811 • (907) 465-4985



### MEMORANDUM

February 12, 1988

Finance Committee  
Co-Chairman

TO: Senator Arliss Sturgulewski  
FROM: Senator John Binkley   
RE: Senate Joint Committee on Economic Recovery

---

Thank you for the opportunity to suggest legislation to the committee which would assist in economic recovery throughout Alaska. There is only one bill I would like to offer for consideration - SB 244.

This bill will change the way the prevailing wage is determined in the State for construction jobs to be more reflective of the area in which the job will be located. It should reduce the cost of construction contracts and more importantly boost the employment rate for the residents of the area in which the job will be located. This is crucial for those areas of the State where jobs are few and far between.

I would greatly appreciate your consideration of SB 244. If you need any further information, please do not hesitate to call.

jka



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:

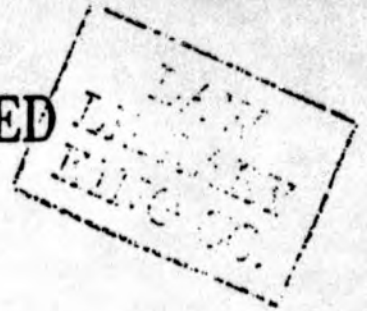
"\* Sec. 10. AS 09.38.055 is amended to read:

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.

§ 33-1125

PROPERTY

6. One watch not in excess of a fair market value of one hundred dollars.
7. One typewriter, one bicycle, one sewing machine, a family bible, a lot in any burial ground, one shotgun or one rifle or one pistol, not in excess of an aggregate fair market value of five hundred dollars.
8. One motor vehicle not in excess of a fair market value of one thousand five hundred dollars. If the debtor is maimed or crippled, the fair market value of the motor vehicle shall not exceed four thousand dollars.
9. Professionally prescribed prostheses for the debtor or a dependent of the debtor, including a wheelchair.

Amended by Laws 1976, Ch. 170, § 22; Laws 1983, Ch. 237, § 10.

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).

§ 33-1126. Money benefits or proceeds

A. The following property of a debtor shall be exempt from execution, attachment or sale on any process issued from any court:

1. All money received by or payable to a surviving spouse or child upon the life of a deceased spouse, parent or legal guardian, not exceeding twenty thousand dollars.
2. The earnings of the minor child of a debtor or the proceeds thereof by reason of any liability of such debtor not contracted for the special benefit of such minor child.

3. All money, proceeds or benefits of any kind to be paid in a lump sum or to be rendered on a periodic or installment basis to the insured or any beneficiary under any policy of health, accident or disability insurance or any similar plan or program of benefits in use by any employer, except for premiums payable on such policy or debt of the insured secured by a pledge, and except for collection of any debt or obligation for which the insured or beneficiary has been paid under the plan or policy and except for payment of amounts ordered for support of a person from proceeds and benefits furnished in lieu of earnings which would have been subject to such order and subject to any exemption applicable to earnings so replaced.

4. All money arising from any claim for the destruction of, or damage to, exempt property and all proceeds or benefits of any kind arising from fire or other insurance upon any property exempt under this article.

5. The cash surrender value of insurance policies where for a continued, unexpired period of one year such policies have been owned by a debtor and have named as beneficiary the debtor's surviving spouse, child, parent, brother, sister, or any dependent, to the extent of one thousand dollars for each surviving spouse, child, parent, brother, sister, or other dependent, not to exceed five thousand dollars in the aggregate. For this section a dependent is defined as one who is dependent upon the insured debtor for not less than one-half of his support.

6. Any claim for damages recoverable by any person by reason of any levy upon or sale under execution of his exempt personal property or by reason of the wrongful taking or detention of such property by any person, and the judgment recovered for such damages.

7. A total of one hundred fifty dollars held in a single account in any one financial institution as defined by § 6-101. The property declared exempt by this paragraph is not exempt from normal service charges assessed against the account by the financial institution at which the account is carried.

B. Any money or other assets payable to a participant or beneficiary from, or any interest of any participant or beneficiary in, a retirement plan which is qualified under §§ 401(a), 403(a), 403(b), 408 or 409 of the United States Internal Revenue Code of 1986, as amended, shall be exempt from any and all claims of creditors of the beneficiary or participant. This section shall not apply:

PROPERTY

1. To an alternate § 414(p) of the United States Internal Revenue Code.

2. To amounts covered by bankruptcy; or

3. To the assets of a trust. The interest of any creditor of the trust.

C. Any person who is a resident of this state and who does not may claim as a person including security de residence, not exceed rent.

Amended by Laws 1976, 12, 1986; Laws 1987, Ch. 12.

Section 33-1101 et seq.

For effective date a 1976, Ch. 170, see note following § 12-2401.

Reviser's Notes.

1983 Note. Pursuant to Laws 1983, Ch. 12, § 41-1304.02, in paragraph 1, "month's" a fest clerical error.

1987 Note. Pursuant to Laws 1987, Ch. 12, § 41-1304.02, subsection 1, relettered as subsection 1, subdivisions (a) through (d) relettered as subsections 1, 2, 3, and 4.

Cross References

Garnishment, monies accounts, withholding fr § 12-1578.

§ 33-1130. Tools and equipment of a profession

The following tools and equipment of a business or profession shall be exempt from execution, attachment or sale on any process issued from any court:

1. The tools, equipment, and other personal property primarily used in, and necessary to, the profession of the debtor, the value of two thousand dollars, do not include a motor vehicle for household purposes.

2. Farm machinery and equipment not in excess of an amount determined by the debtor whose primary use is for farming.

3. All arms, uniforms, and other personal property.

Added by Laws 1976, Ch. 170, § 10.

For effective date : 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).

PROPERTY

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 chapter¹ 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 months' 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.

¹ 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).

Alaska State Senate

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Senate Finance Committee
State Affairs Committee
Vice-Chair, Rules Committee
Chair, Administrative Regulation Review

William L. Hensley

MEMORANDUM

To: Senator Sturgulewski
Senator Jones

From: Senator Hensley *WHL*

Date: February 7, 1988

Re: Legislation that would help economic recovery.

I would like to submit SB 244 specifically for your consideration.

Generally, I think any improvement on the way prevailing wages are determined would have immediate benefits. Because of an artificially high wage scale fewer people are put to work when we try to stimulate the economy with state spending such as the jobs bill. Thus we restrict the number of people we can help with our limited resources. Maybe we should totally exempt municipalities and school districts from Davis-Bacon wage determinations.



Times photo by Douglas

Jack Cole, Matanuska-Susitna Borough public works director, stands on the Point MacKenzie road not far from Co

Roadway reaches Point MacKenzie

Cole's gamble pays off for Mat-Su borough in savings, jobs

By Dirk Miller
Times Valley Bureau

POINT MACKENZIE — The road crosses swampland, tundra, bog and bush. Its gravel surface skirts lakes, ponds and bracken. It strikes through valleys and ridges until finally, eight miles later, it crests a rise near the bluff and ends overlooking Knik Arm and, across the water, Anchorage.

Jack Cole knows every dip, bump and grade along the way. He has watched it progress from a corridor of downed trees this fall to a full-fledged roadway.

Two months ago, Cole, the public works director for the Matanuska-Susitna Borough, told the Mat-Su assembly he could build the road cheaper and quicker than private contractors. He staked his job on it, and the assembly took him at his word.

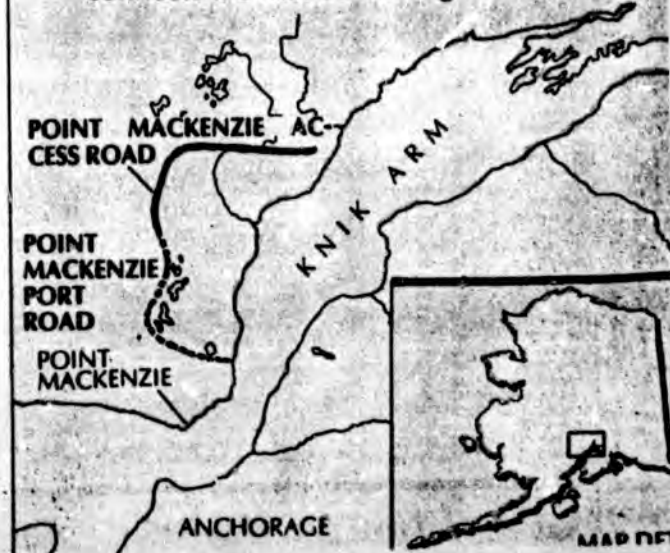
Disappointed bidders and other members of the public said a government project could only mean cost overruns and a high pricetag.

More potshots were lobbed when a fired employee criticized the practice of using logs in the roadbed when crossing a huge swamp.

But Cole has survived all that. His final answer to critics has been to bring the road in ahead of schedule and under budget.

He estimates that the finished road will cost under \$700,000.

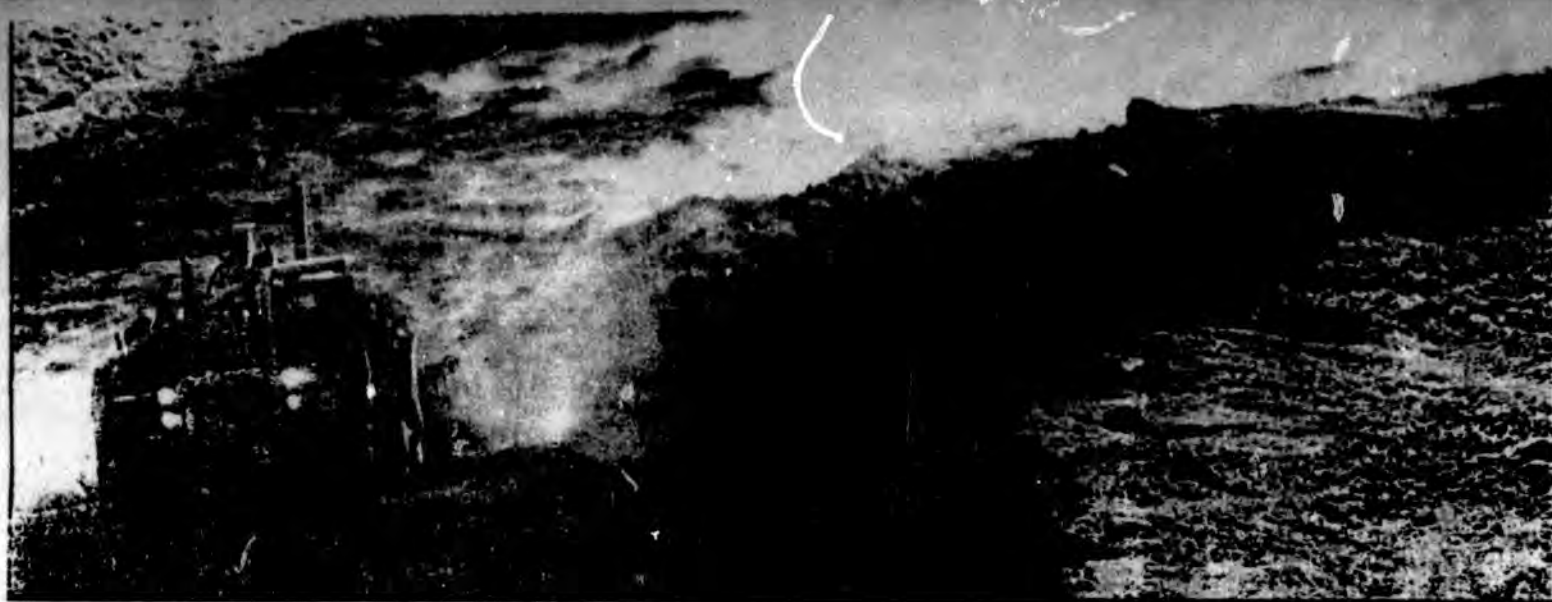
The newest portion of Point MacKenzie Port Road connects the Mat-Su Borough to tide water



ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1579 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1376



Below-freezing temperatures create wisps of steam as fresh soil is overturned along the bulldozed Point MacKenzie road.

Road: Borough may push through to

Continued from page A-1

The lowest bidder had submitted a bid of just over \$1 million.

"It's nice to be able to do what you say you can do," said Cole as he drove along the road earlier this week. "I've always maintained we could do it, if we did it this way."

Cole, 65, has plenty of experience building roads and other projects in Alaska. He owned a construction company in Anchorage. He supervised the construction of Section 1 of the trans-Alaska pipeline. He's worked for large contractors.

The Point MacKenzie road wasn't much of a challenge, he said.

"This was just a little road," Cole said.

The road to Point MacKenzie has been a favorite project of the borough assembly for about a year. It's been talked about for at least 20 years, however.

The idea was to open up a link to tidewater within the borough.

A prime port site lies near the end of the road. Another dock juts out in the arm about a mile away.

Until now, the only way to get to either site has been on foot, boat or off-road vehicle.

The road has been a catalyst for new ideas in the borough.

Starting this summer, ferry service is scheduled to begin between Anchorage, Kenai and Point MacKenzie.

A Japanese construction firm has announced its interest in tunneling under Knik Arm to connect Anchorage with the borough.

Another firm, Susitna Industries, has been working on plans for a \$51 million to \$70 million investment on the point's east side, Ric Davidge, the borough's development services director, said.

Point MacKenzie farmers have asked the state for an unused grain terminal at Seward to set up at the existing dock. They say barging in feed from Seattle will cut their costs.

Without the road, Borough Manager John Hale said, the development at Point MacKenzie would not be possible. And it's

development and jobs that the Valley's sagging economy desperately needs.

Jobs are another reason Cole wanted the borough to build the road itself using rented equipment.

When the borough advertised for bidders, the lowest was submitted by an Outside firm that Cole thinks wouldn't have hired many folks from the borough.

"We have put \$700,000 into an economy that's dying," Cole said. The money has paid for big dozers, scrapers and the men to run them. The trees cut from the road's path have been neatly stacked in piles for a later sale.

"A private contractor wouldn't have done that," he said.

Best of all, Davidge said, the borough has done it all on its own. "We haven't used a dime of state money."

The new section of road begins at the Point MacKenzie Road just past Holstein Avenue. It ends on a ridge almost directly across Knik Arm from Fort Elmendorf.

Tuesday night, Cole plans to ask the assembly to let him push a spur road down to the beach where Carl Anderson's dock sits, a place called Knik Landing. That's where the farmers want to erect the grain terminal.

When the road is complete, Cole and Hale plan to set up a huge spotlight across Knik Arm and shine it towards Anchorage.

1 IN THE SENATE

BY HENSLEY, FAIKS AND BINKLEY

2

SENATE BILL NO. 244

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to prevailing rate of wages in
regions of the state; and providing for an effective
date."

8

9

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

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* Section 1. AS 36.05.010 is amended to read:

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Sec. 36.05.010. WAGE RATES ON PUBLIC CONSTRUCTION. A contractor
or subcontractor who performs work on public construction in the
state, as defined by AS 36.95.010(3), shall pay not less than the
current prevailing rate of wages for work of a similar nature in the
region in which the work is done. The current prevailing rate of
wages for each pay period is that contained in the latest determina-
tion of prevailing rate of wages issued by the Department of Labor
before the end of the pay period for the region in which the work is
done.

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* Sec. 2. AS 36.05.010 is amended by adding a new subsection to read:

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(b) The Department of Labor shall determine the prevailing rate
of wages for each region of the state. The regions are based on the
census areas established for the 1980 census. The regions are as
follows:

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(1) Southeastern region, consisting of census areas

(A) 070 (Haines Borough);

(B) 080 (Juneau Borough);

(C) 100 (Ketchikan Gateway Borough);

(D) 160 (Prince of Wales-Outer Ketchikan Census Area);

- 1 (E) 170 (Sitka Borough);
2 (F) 180 (Skagway-Yakutat-Angoon Census Area); and
3 (G) 220 (Wrangell-Petersburg Census Area);
4 (2) Southcentral region, consisting of census areas
5 (A) 020 (Anchorage Borough);
6 (B) 090 (Kenai Peninsula Borough);
7 (C) 130 (Matanuska-Susitna Borough); and
8 (D) 200 (Valdez-Cordova Census Area);
9 (3) Southwestern region, consisting of census areas
10 (A) 010 (Aleutian Islands Census Area);
11 (B) 040 (Bristol Bay Borough);
12 (C) 050 (Dillingham Census Area); and
13 (D) 120 (Kodiak Island Borough);
14 (4) Yukon region, consisting of census areas
15 (A) 030 (Bethel Census Area);
16 (B) 210 (Wade Hampton Census Area); and
17 (C) 230 (Yukon-Koyukuk Census Area);
18 (5) Central region, consisting of census areas
19 (A) 060 (Fairbanks North Star Borough); and
20 (B) 190 (Southeast Fairbanks Census Area);
21 (6) Northern region, consisting of census areas
22 (A) 110 (Kobuk Census Area);
23 (B) 140 (Nome Census Area); and
24 (C) 150 (North Slope Borough).

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

JOINT COMMITTEE ON ECONOMIC RECOVERY
INFORMATION INDEX

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; - Senate Labor & Commerce Committee.
- SB 392 - An Act relating to delinquent loans of Alaska Industrial Development and Export Authority; - Sen. Halford
- SB 408 - An Act relating to Alaska stabilization assistance program; - Sen. Kelly and Sturgulewski
...Memorandum - Sen. Kelly to All Senators 2/9/88
 - Sen. Kelly to Tam Cook 2/9/88
...Letter - Anthony J. Gumbiner to David Rose 2/18/88
...Text - A Conceptual Plan for an Alaska Stabilization Assistance Program - David Rose.
...Memorandum - Dave to Jan 1/29/88
...Article - Anch Daily News - "Value of Mat-Su Property plunges 15 to 20 percent" - 2/8/88
...Text - Proposal for the Establishment of the Hallwood Alaskan Real Estate Stabilization Trust.
- SB 409 - An Act making a special appropriation to the Alaska stabilization assistance fund; - Sen. Kelly and Sturgulewski
- SB 471 - An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt; - Sen Halford
...Memorandum - Jack Chenoweth to Sen Faiks 2/11/88
...Text - FINANCIAL ASSISTANCE, Guaranteed Loans General Information
...Letter - Robert P. Gray to Sen. Faiks, Halford and Sturgulewski 12/21/87
...Letter - J.K. Sieberts to Sen Faiks 12/12/87
- SB 474 - An Act increasing property exemptions. - Sen. Halford.
- SB 476 - An Act creating the supplemental assistance fund for Railbelt Communities; - Sen. Halford
- 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

SCR 32 - Urging the state's financial institutions to adopt more flexible lending and collection policies.

House Bills:

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.

Reports and Letters:

Municipality of Anchorage Economic Recovery Program - Mayor Tom Fink.

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

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.

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.

DETAILED WEST MOUNTAIN ESTATE # 1
 NAME: A & C Farms, Inc. DATE: May 11, 1987

LINE #	DESCRIPTION	AMOUNT	DATE	DEBIT	CREDIT
4-100	1200,000.00	1200,000.00			
5-200	1200,000.00	1200,000.00			
6-300	1200,000.00	1200,000.00			
7-400	1200,000.00	1200,000.00			
TOTAL	4800,000.00	4800,000.00			

TOTAL ASSETS	4800,000.00
LAND	1200,000.00
IMPROVEMENTS	3600,000.00
TOTAL LESS ASSETS TRANSFERRED	1200,000.00
DEBIT BALANCE	3600,000.00
AFTER ESTIMATION	3600,000.00
TITLE 1 DEBIT	3600,000.00
TITLE 11 DEBIT	3600,000.00
ANNUAL LEASE PAYMENT	3600,000.00

PROJECTED ANNUAL DEBIT SERVICE	3600,000.00
PROJECTED FUTURE	3600,000.00
TOTAL PROJECTED ANNUAL DEBIT SERVICE	3600,000.00
ESTIMATED LOSS	3600,000.00

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TITLE 11 DEBIT	3600,000.00
ANNUAL LEASE PAYMENT	3600,000.00

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PROJECTED FUTURE	3600,000.00
TOTAL PROJECTED ANNUAL DEBIT SERVICE	3600,000.00
ESTIMATED LOSS	3600,000.00

8. Those farm assets given up pursuant to paragraph 3 above, may be leased during the term of the restructured loan for 1% annually of the value of assets applied to reduce debt at the time of restructuring.
9. The borrower may purchase the land and improvements from the State at any time during the period of the restructured loan at an amount equal to the unpaid principal balance of the Restructured ARIF Debt, minus a discount of 1% of each year remaining in the 20 year loan term.
10. At the option of the borrower, existing land clearing loans with ARIF and AAAC, may be included in tiers 1 and 2 or be placed in moratorium at the time of restructuring. If placed in moratorium, they will remain in moratorium only as long as the land is used for agricultural use.
11. All other loans will be taken off payment suspension.
12. The restructured loan will have special policies.
13. Borrowers who took a payment suspension from November 1, 1987 and are now in payment suspension will be placed in the restructured loan.
14. Borrowers who are in payment suspension and are not in the restructured loan will be placed in the restructured loan at the time of restructuring. If they are not in the restructured loan at the time of restructuring, they will be placed in the restructured loan at the time of restructuring.

JAM
8/11

SHORETT & RIELY
REAL ESTATE APPRAISERS & CONSULTANTS
310 K STREET, SUITE 501, ANCHORAGE, ALASKA 99501-2046

FEB 19, 88
MAR 07 1988

ANCHORAGE (907) 276-1851
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SAN JOSE (408) 294-6733

December 31, 1987

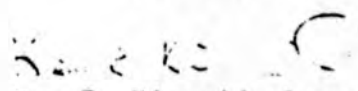
SYNOPSIS OF
1987 FOURTH QUARTER
ANCHORAGE APARTMENT MARKET VACANCY SURVEY

Attached are the results of the fourth quarter, 1987, Anchorage Apartment Rental Vacancy Survey. The overall vacancy for the fourth quarter of 1987 was 23.8%. This is 1% higher than the 22.8% overall vacancy in the third quarter of 1987, and it also represents an approximate 1% decline from the 1986 fourth quarter vacancy of 24.7%. Although the vacancy rate indicates a slight decline from 1986 to 1987, the rental rates for apartments have also dropped. As to price classification, the vacancy rate for low cost units has significantly increased between the fourth quarter 1986 and the fourth quarter 1987. In contrast, the vacancy for mid and high cost units has decreased during the same time period. The changes are summarized as follows:

	<u>Fourth Quarter 1986</u>	<u>Fourth Quarter 1987</u>	<u>% Change</u>
	<u>Vacancy</u>	<u>Vacancy</u>	
Low Cost	30.0%	42.0%	+ 40%
Mid Cost	21.7%	17.2%	- 21%
High Cost	21.6%	13.6%	- 37%
Overall Vacancy	24.7%	23.8%	- 4%

Please refer to the attached summary sheet for additional information. I would like to thank all of the apartment and property managers for cooperating in this survey and I look forward to talking with you soon for the first quarter, 1988 survey.

Sincerely,


Ken E. Kincaid, Appraiser

KEK/1h

ANCHORAGE APARTMENT VACANCY SURVEY
=====

FOURTH QUARTER 1987

Price Range	Total # Surveyed	% Vacant			Total # Vacant	Total % Vacant
		Eff 1 Bed	2 BED	3 BED		
Low Cost	1,738	40.4%	45.1%	39.4%	730	42.0%
Mid Cost	2,489	20.5%	12.0%	13.5%(1)	427	17.2%
High Cost	1,466	12.5%	14.2%	14.1%(1)	200	13.6%
TOTAL	5,693	24.5%	23.0%	27.7%	1,357	23.8%

Price Ranges	EFF & 1 BED	2 BED	3 BED
Low Cost	\$0-\$325	\$0-\$425	\$0-\$500
Mid Cost	\$326-\$450	\$426-\$550	\$501-\$600
High Cost	\$451+	\$551+	\$601+

(1) Interpret with caution due to limited size of sample.

This apartment survey is conducted by Ken E. Kincaid
of Shorett & Riely 276-1851.

(C) Copyright 1987 Shorett & Riely

By LARRY CAMPBELL
Daily News reporter

The people at Clark Junior High School won't have to risk getting skewered when they sit on the gymnasium's wooden bleachers next year. And Williaw Elementary, just down Bragaw Street from Clark, will finally get some new ceiling tiles and a coat of paint.

The Anchorage School District has money to spend this summer, about \$10.4 million granted by the Alaska Legislature in the so-called "jobs bill" passed earlier this session and signed by Gov. Steve Cowper.

The district is going to use the money to spruce up and fix up at most schools, and create between 250 and 300 jobs, according to Louis Overstreet, executive director of capital projects.

Besides replacing Clark's bleachers, which are 27 years old and splintering badly, many other projects are planned, like interior and exterior painting, landscaping, replacing floor and ceiling tiles and carpeting, upgrading ventilation systems and resurfacing parking lots and hockey rinks at schools from Government Hill to O'Malley.

Overall, the district has plans for about 300 projects this summer

at 62 locations. To oversee that many projects, the district will hire five temporary project managers for about six months to keep the scattered work coordinated, Overstreet said.

"It's labor intensive, and that's what the legislature said it wanted," Overstreet said. "But it's going to be a logistical nightmare. At one school, we could have electricians, sheetrockers and painters all working on different projects and we've got to keep them from getting in each other's way."

"It works out to spending about \$165,000 every working day. That's going to be tough."

The legislature intended for the money to be spent this summer. In addition, the district faces its own constraint of finishing projects before the three-month summer vacation is over and students return to classes. Some construction projects from last summer, such as the refurbishing at Service High's library, didn't make the deadline, and students and construction crews had to work around each other for a while.

The district must also finish surveying 77 buildings for asbestos and file a report with the federal government and the governor's office by October.

"An em... plutonium... concerned al... of the Alas... Shipments.

Washington... who led Sen... broaden U... nuclear ind... reprocessing

Evans said... ated in pa... included in t... Act, were s... before the w... developed b... because it m...

"This agr... less," said E... were to reje...

AHFC chief encourages holding properties

By LARRY PERSILY
The Associated Press

JUNEAU — The executive director of the Alaska Housing Finance Corp. has discussed with federal mortgage insurers the possibility of holding some foreclosed property off the market until prices recover.

Such a proposal to balance supply and demand — and avoid further erosion of housing prices — has been suggested by the legislative economic recovery committee.

No legislative approval or funding would be required for AHFC to take foreclosed property off the market, said Ron Lehr, executive director of the state home loan agency.

Agreement from other investors, primarily mortgage insurers, would be needed, Lehr said.

"You need to be able to convince investment partners that it will have the effect you say it will have," he said.

"I need their cooperation ... we can't do it all by ourselves," Lehr said.

AHFC is working with the Federal

*"I need their cooperation
... we can't do it all by
ourselves."*

— AHFC director Ron Lehr

Housing Administration, Veterans Administration, Federal National Mortgage Association and others to develop a plan for the agencies to manage supply and demand by holding back some of their properties.

AHFC holds 3,800 housing units taken over in foreclosure actions, Lehr said. About one-third are mobile homes, one-third condominiums and one-third single-family and duplex units.

The agency foreclosed at the rate of about 300 units a month in 1987.

Despite a generally poor economy, some of the homes are selling, Lehr said. "Our sales have gone up considerably in the last year."

AHFC sold 20 foreclosed homes in January 1987 and 120 units in December 1987.

"The prices definitely have firmed" for single-family homes, Lehr said. Condos and mobile homes are the biggest problem, he said.

In a draft report, the House subcommittee on housing and banking of the Joint Committee on Economic Recovery has recommended AHFC and other mortgage holders consider demolishing some substandard, unsafe and unsalable housing units.

The subcommittee draft report says demolishing some units would help eliminate low-end units from the market, stabilizing prices for homes left on the market.

"There's probably some housing out there that's probably best to tear down," Lehr said.

But, he said, if owners believe property may be needed in two or three years, it's better to take the property off the market and then put it back on sale in the future.

Permanent f applications

INTERNATIONAL VENTU
foreign investments for the perm

The Associated Press

JUNEAU — Alaskans v... nent fund dividend applica... urging people to make s... numbers to avoid having... from the oil money paymer...

State revenue officials... tions will be distributed... Applications also will be a... tion offices after April 11.

Generally, people who f... early receive their divid... issued beginning in October.

The IRS requires 20 per... than \$600 to be withheld u... social security number. The... \$813.

Applicants who provide... receive the full dividend am...

Sunday

Anchorage Daily News

Sunday, March 20, 1988

Banks make a plea

But don't call it
a bailout, they say

By STAN JONES

Daily News reporter

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

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

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

"Our basic premise is of course that, to stabilize the economy, you need to stabilize the banking system," said Alaska Statebank president Derrell Smith. "We are concerned that there will be a lack of credit available."

Business

Without the state help, he said, banks might not have enough money to lend to small business customers to get them through the recession and keep their employees at work.

"We think that even if we take this money and we use it to, say, keep a gas station alive that fails in three years, in three years its employees will have a better chance of finding other employment in Anchorage than they have now," he said.

The state's investment, which Smith estimated could total \$15 million to \$25 million, would take the form of preferred stock or a type of loan called a "subordinated debenture."

In either case, if the bank later failed, the state would recover its investment out of any money left after the bank's depositors and creditors were paid off, but before its stockholders got anything, according to Smith.

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

See Page B-4. BANKS

BANKS: Some lobbyists go to bat in Juneau

Continued from Page B-1

sion of Banking and Securities, that boils down to the three banks behind the bill, plus three more: Denali State Bank and Mt. McKinley Mutual Savings Bank in Fairbanks, B.M. Behrends Bank of Juneau and Mt. McKinley Mutual Savings Bank of Fairbanks.

All three of the bankers pushing the bill lost money in 1987, according to reports from various bank regulators and the banks themselves. Home Savings and Alaska Statebank lost \$6.3 million each and Alaska Continental lost \$1.5 million.

Alaska Statebank and Alaska Continental finished the year with net worths of \$7.8 million and \$1.5 million, respectively.

Despite the injection of some \$4 million in fresh capital over the past 18 months by its owners, the losses whittled Home Savings' equity capital — or net worth — to \$168,000 at the end of 1987, according to a report from the Federal Home Loan Bank of Seattle, which regulates and finances the institution.

In a Feb. 29 memo to Rep. Red Boucher, D-Anchorage, Home Savings chairman Bob Gillam discussed a federal plan to help banks in the southwestern United States and said the adoption of a similar plan for Alaska was "critical to our survival and to that of the entire savings bank industry in Alaska."

Despite their losses, the bankers say they need state money only to better serve their customers, not to stay afloat. "Our bank, we feel, will make it without it," said Smith. "This isn't a do-or-die bill for Alaska Statebank."

Buz Hoffman, president of



Anchorage Daily News/Erin Hill

H. Derrell Smith

Alaska Continental, said he needs to raise \$400,000 to meet regulatory guidelines, and can do so without help from the state. But he said he would be interested in the state program if it gave him a chance to expand his lending activity.

"This loan, if authorized, would allow our company to make hundreds of millions of dollars worth of real estate loans in the state of Alaska at a time when no one else will do it," said Gillam of Home Savings.

Smith said the proposal would allow him to keep many of his recession-bitten small business borrowers in operation until the economy revives.

When banks close, said Smith, troubled business people who had lines of credit at the failed banks are unable to establish new credit at a new bank, whereas their old banks would have kept them afloat in hopes of a recovery. So Smith believes it's a mis-



take for economic recovery plans to focus exclusively on bank assets now in the hands of the Federal Deposit Insurance Corp.

"It's like the paramedics coming to the scene of a major accident to work on dead people," he said. "What we need is to have the paramedics work on the people that are wounded but will make it."

Even if the banks that got the money should close and leave the state with no way to get its investment back, said Smith, the extra time the money would give the bank and its customers would make it worthwhile for the state.

Alaska Continental's Hoffman said the money is needed to preserve Alaska's mix of state-regulated and federally regulated institutions. "The state is running a real danger of losing the small banks it controls that push loans to the small person," said Hoffman.

He rejects any suggestion that the program would constitute a bank bailout since the state would, in theory at least, earn interest on its investment and get it back some day.

In Juneau, the proposal is under study by the state Department of Commerce and Economic Development.

"As drafted, it's a long way from anything that would be acceptable," said Commerce Commissioner

State to try to beat state's recession blues

Tony Smith. "My sense is that we will not go for any bank bailout, but if there's an investment that makes sense that can be properly secured, it may be considered."

Smith and state bank regulator Willis Kirkpatrick said that if the commerce department does endorse the idea, it will probably attach several conditions. The state's investment would have to be fully secured, possibly with liens on the bank's office buildings and branches, they said. Also, any management problems would have to be cleaned up, the bank wouldn't be allowed to pay dividends until the state got its money back, and there would be salary limits for bank officials.

"If I were to recommend to the governor that we end up owning stock in the banks, I think he'd level me," Smith said. "Our goal is a sound, diversified banking system not owned by the state."

Ed Dankworth, one of three lobbyists hired to push the proposal, agreed the plan will probably have to include some restrictions to protect the state and prevent anyone in the bank from benefiting directly if it is to have any hope of passage. "I don't think there's a great mood to go bail anybody out," he said.

But he said he was optimistic that a reasonable plan might fly. "They've loaned

money to a lot of other people, to agriculture and every other kind of business, so I'd like to see them at least take a look at our proposal," Dankworth said.

The other lobbyists on the project are Mitch Gravo and Bill Miles. Each of the three will be paid \$25,000 for his work, with the three banks splitting the cost equally.

Legislators seem to regard the idea of bank assistance with considerable skepticism, even though they don't reject it outright.

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

~~...the state's plan to pick the winners and losers in the state.~~

Policy considerations aside, said Brown, there's the question of where the money would come from. "If we have limited funds, are we going to be putting them into propping up banks?"

~~...Brown's co-chairman is Rep. Steve Bieger, R-Anchorage. He said he would support~~

proach with caution any effort to relieve the commercial sector of the economy. "The committee has been exceedingly reluctant to get into that area, either because it didn't look like the state could make proper or prudent business decisions in that area or it just wasn't an appropriate use of state money."

~~(Some bankers are also skeptical about the state buying into their industry. "I really don't think the state has any business investing in banks on a basis like this," said Bill Moran Jr., the head of First Bank in Ketchikan. But he said he wouldn't object if the investment was properly underwritten.~~

~~Bill Gray, president of the National Bank of Alaska, believes the public policy question confronting the legislature is whether the state should invest in any business. "If it was a big retailer of some kind, nobody would think of the state coming in and taking an equity position," Gray said.~~

Gray takes issue with the proposition that maintaining small, state-chartered banks is necessary to ensure that small customers will find a place to do business.

~~...small customers from Skagway. Brown said he would support the plan to support the state bank.~~

loss recognized under consolidated return principles or as may be prescribed by regulations. These loss deferral rules do not apply to sales of inventory in the ordinary course of business between two corporations if one or both of them are foreign corporations. These loss deferral rules also do not apply to a loss on the repayment of a loan to another member of the controlled group if the loan is payable in a foreign currency and the loss is due to a reduction in value of the foreign currency.

Indirect transactions include sales through a stock exchange. You may not deduct your loss on the sale of stock through your broker if, for example, under a prearranged plan a related person or entity buys the same stock that you had owned.

Property received from a related party. If you sell or exchange at a gain property you received from a related party, you recognize the gain only to the extent that it is more than the loss previously disallowed to the transferor. This rule applies only to the original transferee.

Example 1. You sell stock with a cost basis of \$10,000 to your brother for \$7,600. Your loss of \$2,400 is not deductible. Later he sells the same stock to an unrelated party for \$10,500, thus realizing a gain of \$2,900. His reportable gain is only \$500, the excess over the \$2,400 loss not allowed to you.

Example 2. Assume the same facts as in Example 1, except that your brother sells the stock for \$6,900 instead of \$10,500. His recognized loss is only \$700. He cannot deduct the loss that was not allowed to you.

Ownership of stock. In determining whether an individual directly or indirectly owns any of the outstanding stock of a corporation for purposes of a loss on a sale or exchange, the following rules apply.

Rule 1. Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust is considered to be owned proportionately by or for its shareholders, partners, or beneficiaries.

Rule 2. An individual is considered as owning the stock owned, directly or indirectly, by or for his or her family. Family includes only brothers and sisters, half-brothers and half-sisters, spouse, ancestors, and lineal descendants.

Rule 3. An individual owning (other than by applying rule 2) any stock in a corporation is considered to own the stock owned directly or indirectly by or for his or her partner.

Rule 4. For purposes of applying rules 1, 2, or 3, stock constructively owned by a person under rule 1 is treated as actually owned by that person. But stock constructively owned by an individual under rules 2 or 3 is not treated as owned by the individual for again applying either rule 2 or 3 to make another person the constructive owner of the stock.

If you transfer a patent for value, see *Inventions*, as discussed later in this Part, for transfers to certain related persons that will not qualify for capital gain treatment.

Cancellation or Sale of a Lease

Payments for the cancellation or sale of a lease received by a tenant may result in a gain or loss from the sale or exchange of a capital asset. If the lease was used in the tenant's trade or business, the gain or loss is a section 1231 gain or loss, see *Section 1231 Property*, later. If the lease was for the tenant's home, a gain would be taxed as a capital gain but any loss would not be deductible.

Payments received by a landlord (lessor) for cancellation of a lease are ordinary income and not capital gains.

Cancelling a Sale of Real Property

If you sell real property to an individual and the sales contract gives the buyer the right to return the property to you for the amount paid, you may not have to recognize gain or loss on the sale. You will not recognize gain or loss if the property is returned to you within the same tax year as the sale. However, if the property is returned to you in a future tax year, you must recognize gain or loss in the year of the sale. In the year the property is returned to you, your new basis in the property will be equal to the amount you give back to the buyer.

Foreclosure, Repossession, or Abandonment

If the owner (borrower) does not make payments due on a loan secured by property, the lender (mortgagee or creditor) may foreclose on the mortgage or repossess the property. The foreclosure or repossession is treated as a sale or exchange (even if voluntarily conveyed to the lender) from which the owner may realize gain or loss (discussed below). In another situation, the owner may abandon the property. The abandonment is treated as a disposition from which the owner may realize ordinary income or loss (see *Income or loss on abandonment*, later).

If the owner is personally liable for repayment of the loan, then the above sale or exchange, or the abandonment of the property, may give rise to discharge of indebtedness income to the owner (see *Owner personally liable for debt and income or loss on abandonment*, later).

Further, if investment credit property is transferred or abandoned, the owner may owe additional tax from recapture of the investment credit. See Publication 572, *General Business Credit*.

Gain or loss on foreclosure or repossession.

The owner's gain or loss from the sale or exchange described above is figured in the same way as a gain or loss from sales or exchanges generally. The gain or loss is the difference between the owner's adjusted basis of the property transferred and the amount realized. See *Figuring Gain or Loss in Part I*, earlier.

Amount realized. If the owner is not personally liable for repayment of the debt secured by the property transferred, the amount realized by the owner includes the full amount of the debt discharged by the transfer, or, if greater, the sales proceeds. The full amount of the debt discharged is included even if the property's fair market value is less than the amount of the debt discharged.

If the owner is personally liable for the debt, and the fair market value of the property transferred is less than the amount of the debt discharged, the amount realized by the owner does not include the amount of the debt discharged that is more than the fair market value of the property. In this case, the owner may realize ordinary income from discharge of indebtedness for that part of the discharged debt not included in the amount realized. See *Owner personally liable for debt*, later.

Capital or noncapital asset. If the property transferred is a capital asset, the owner's gain or loss is a capital gain or loss. If the property is not a capital asset, the gain or loss is an ordinary gain or loss, unless the property is the kind that can be treated as a capital asset. See *Ordinary or Capital Gain or Loss*, earlier.

Loss. A loss realized by the owner of property transferred through foreclosure or repossession is figured in the same way as a loss from sales or exchanges generally. See *Figuring Gain or Loss in Part I*.

No deduction is allowed for loss on *personal residence or other property held for personal use*, unless the loss is from a personal casualty or

theft. Also, no deduction is allowed for loss on the *transfer of any property between related parties*. See *Capital Assets and Sales and Exchanges Between Related Parties*, earlier.

The owner will have a deductible loss if the adjusted basis of business or investment property transferred through foreclosure or repossession more than the amount realized (discussed earlier). Depending on whether the property is a capital asset, the loss may be an ordinary loss or a capital loss. See *Ordinary or Capital Gain or Loss*, earlier. For information on the way ordinary losses are deducted, see Part III. For information on ordinary losses (normally from dispositions of section 1231 property), see Part IV and Form 4797, in Part V.

Example. In 1985, Harold Boggs purchased unimproved real property as an investment at a cost of \$77,000. He paid \$12,000 cash and obtained a \$65,000 note secured by a mortgage on the property. Harold repaid \$5,000 of the principal before he encountered financial difficulties and defaulted. At a foreclosure sale, the property was sold for \$60,000, the unpaid balance of Harold's mortgage loan. His loss on the transaction is \$17,000 (\$77,000 basis minus \$60,000 realized from the foreclosure and used to pay off the mortgage). Since Harold's foreclosed property was held for investment and is a capital asset held for more than 6 months, Harold's loss is treated as a long-term capital loss.

Gain. If the amount realized by the owner of property transferred through foreclosure or repossession is greater than the adjusted basis of the property, the excess is a gain, taxed in the same way as a gain from sales or exchanges generally. Gain from property held for personal use is taxed as a capital gain. Property used in a trade or business and held for more than 6 months is section 1231 property. Gain on sale or exchange of section 1231 property, whether by foreclosure or repossession, may qualify as long-term capital gain. See *Section 1231 Property*, later.

Example. John purchased property for \$34,000. He paid cash of \$7,500 and assumed a \$26,500 mortgage. During the year John had financial problems and the mortgage was subsequently foreclosed. The net proceeds from the foreclosure sale are \$35,000, representing an increase in the value of the property. Of this amount, John received \$8,500. His gain is \$1,000 (\$35,000 proceeds less \$34,000 basis).

Owner personally liable for debt. If property is transferred through foreclosure or repossession to satisfy a debt secured by the property, the owner may realize ordinary income from discharge of indebtedness. However, the income may not be recognized in certain cases, such as a debt cancellation intended as a gift, an insolvent debtor, or bankruptcy. See Publication 908.

The income from discharge of indebtedness is in addition to the gain or loss from the sale or exchange (transfer of property). This ordinary income from the discharge of indebtedness may be realized if:

- 1) The owner is personally liable for repayment of the debt secured by the property transferred to satisfy the debt, and
- 2) The fair market value (FMV) of the property transferred is less than the amount of debt discharged.

In this case, the amount realized by the owner does not include the amount of debt discharged that is more than the FMV of the property transferred. However, the owner may have ordinary income from discharge of indebtedness for that part of the discharged debt not included in the amount realized.

Example. Frank is personally liable for repaying a mortgage on his investment property. After Frank stopped making payments on the mortgage, the lender foreclosed on it. The balance due was

500. When the property was transferred to the lender, its FMV was \$6,000 and Frank's adjusted basis in it was \$8,000. Frank realized a capital gain of \$2,000 (\$8,000 basis minus \$6,000 amount realized) and ordinary income from discharge of indebtedness of \$1,500 (\$7,500 mortgage debt discharged minus \$6,000 FMV of property transferred to satisfy the debt).

Income or loss on abandonment. If the owner is personally liable for a debt secured by property that has been abandoned, and the debt is cancelled, the owner may realize ordinary income from discharge of indebtedness to the extent of the unpaid debt. However, the income may not be recognized in certain cases, such as a debt cancellation intended as a gift, an insolvent debtor, or bankruptcy. See Publication 908.

Loss from abandonment of business or investment property is deductible as an ordinary loss up to the amount of the property's adjusted basis when abandoned. However, if the property is later foreclosed on or repossessed, there may be gain or loss, figured as discussed earlier under *Gain or loss on foreclosure or repossession*. The abandonment loss is taken in the tax year in which the loss is sustained. The owner, however, may not deduct any loss on his or her personal residence or other property held for personal use, unless the loss is from personal casualty or theft.

Reporting income or loss. The owner of property transferred through foreclosure or repossession to satisfy a debt reports gain or loss on the transfer in the same way as for a gain or loss on sales or exchanges generally. See Part V.

Reporting Gains and Losses. If the owner who transfers or abandons property realizes taxable income from discharge of indebtedness, that income is reported on line 21 of Form 1040.

Abandonment loss. The owner who abandons business or investment property may have an ordinary loss up to the amount of the property's adjusted basis when abandoned. This loss is reported on Form 4797, Part II, line 10.

Form 1099-A. If a lender (including a governmental unit) has acquired an interest in property that was security for a loan, or knows that such property has been abandoned, the lender must provide the owner with a copy of Form 1099-A, *Information Return for Acquisition or Abandonment*, or with an equivalent statement. For acquisitions or abandonments in 1987, the lender must furnish the owner with the statement or copy of the form by February 1, 1988.

Form 1099-A gives the information needed to determine whether or not the owner has income or loss on the acquisition or abandonment of his or her property. If the owner believes any of the information on the form is inaccurate, he or she should contact the issuer of the form immediately. Otherwise, the owner should figure income or loss and report it as discussed in this publication.

Seller's (lender) gain or loss on repossession. If you finance a buyer's purchase of property and later acquire an interest in the property through foreclosure or abandonment, you may have a gain or loss on the acquisition. For more information, see Publication 537, *Installment Sales*.

If you acquire an interest in property that was security for a loan, or have reason to know that the property has been abandoned, you must file an information return with the Internal Revenue Service and also report the information to the borrower. See Form 1099-A, above.

Sale of a Business

The sale of a business is not usually a sale of one asset.

Sole proprietorships. A sole proprietorship usually has many assets. When sold, the assets of the business must be classified as capital assets, depreciable property used in the business, real property used in the business, or property held for

sale to customers, such as inventory or stock in trade. The gain or loss on each asset is figured separately. The sale of capital assets results in capital gain or loss; the sale of real property or depreciable property used in the business results in gain or loss from a section 1231 transaction (explained later); and the sale of inventory results in ordinary income or loss. See *Goodwill* for information on the allocation of the sales price when goodwill exists.

Partnerships. An interest in a partnership or joint venture is treated as a capital asset when it is sold, except that the part of any gain or loss that is from unrealized receivables or inventory items that have appreciated substantially in value will be treated as ordinary gain or loss. Unrealized receivables include the ordinary income potential in certain depreciable property (see Part IV of this publication) owned by the partnership, to the extent of the gain that would have been realized if the partnership had sold the depreciable property at its fair market value when the partnership interest was sold. The amount realized on the sale of a partner's interest includes partnership liabilities for which a partner is relieved. For information on partnerships, see Publication 541, *Tax Information on Partnerships*. Also see *Goodwill*, later.

Corporations. Your interest in a corporation is represented by stock certificates. When you sell the certificates, you usually realize capital gain or loss. For information on the sale of stock, see Publication 550, *Investment Income and Expenses*.

In general, corporate liquidations of property are treated as a sale or exchange. Gain or loss is generally recognized by the corporation on the liquidating sale of its assets. Gain or loss is also generally recognized on a liquidating distribution of assets as if the corporation had sold the assets to the distributee at fair market value. This rule generally applies to distributions after July 31, 1986, unless the corporation is completely liquidated before 1987, and to distributions not in complete liquidation made after 1986. For more information, get Publication 542, *Tax Information on Corporations*.

Inventions

An invention is usually a capital asset in the hands of the inventor whether or not a patent or patent application has been obtained. The inventor is the individual whose efforts created the property and who qualifies as the original and first inventor or joint inventor.

Substantial rights. If you acquire all the substantial rights to patent property before the invention is reduced to practice (tested and operated successfully under operating conditions) for a consideration paid to the inventor, when you dispose of your interest you may obtain the special tax treatment (discussed later) if you are not the employer of, or related to, the inventor. However, if you purchase patent property after it is reduced to practice, the property may be treated as either a capital or noncapital asset, depending on the circumstances.

All substantial rights to patent property means all rights that are of value when they are transferred. The right to prohibit sublicensing or subassignment of rights, or the keeping of a security interest (such as a lien), or a reservation calling for forfeiture for nonperformance, are not treated as substantial rights for these rules and may be kept by the holder.

In the following situations, all substantial rights were not transferred, and the transferor is not entitled to the special tax treatment described later:

- 1) The rights are limited geographically within a country (limiting the rights to one or more whole countries could be a transfer of all substantial rights).

- 2) The rights are limited in time to a period that is less than the remaining life of the patent.
- 3) The rights are limited to fields of use within trades or industries that are less than all the rights that exist and have value at the time of the grant.
- 4) The rights are less than all the claims or inventions covered by the patent that exist and have value at the time of the grant.

Special tax treatment. If you are the inventor or an individual who acquired all the substantial rights to the patent property and you transfer all the substantial rights or an undivided interest in all such rights, the transfer will be treated as a sale or exchange of a long-term capital asset. This treatment applies even if you have not held the patent property for more than 6 months and the payments received are made:

- 1) Periodically during the transferee's use of the property, or
- 2) Contingent on the productivity, use, or disposition of the transferee's rights in the property.

Related persons. The special tax treatment does not apply if the transfer is either directly or indirectly between you and your employer or related person as defined earlier under *Sales and Exchanges Between Related Parties* with the following changes:

- 1) Members of your immediate family include your spouse, ancestors, and lineal descendants, but not your brothers or sisters or half-brothers or half-sisters.
- 2) An individual and a corporation are considered related parties if the individual owns, directly or indirectly, 25% or more in value of the outstanding stock of the corporation.
- 3) A partnership and a partner, if the partner owns, directly or indirectly, more than 50% of the capital or profits of the partnership (other than an interest in the partnership).
- 4) Two partnerships, if the same persons directly or indirectly own more than 50% of the capital or profits of each.

If you come within the definition of a related taxpayer independent of family status, the brother-sister exception does not apply. Thus, a transfer between a brother and sister, one of whom is the beneficiary and the other the fiduciary of a trust, is a transfer between related parties. The brother-sister exception does not apply because the trust relationship is independent of the family status.

Trade secrets (technical "know-how") are generally eligible for capital gain treatment on their sale or exchange. A transfer of a trade secret is a sale or exchange, if the transfer includes all substantial rights to the trade secret. The substantial rights that must be transferred are the right to use the trade secret in perpetuity or until it becomes public knowledge and no longer protectable under the laws of the country where the transferee operates, and the exclusive right to prevent further disclosure.

Copyrights

Literary, musical, or artistic compositions, or other property are not treated as capital assets if you own personal efforts created them, or if you got the property in such a way that all or part of your basis in the property is determined by reference to a person whose personal efforts created it (for example, if you get the property as a gift). The sale of such property, whether or not it is copyrighted, results in ordinary income and is generally reported on Form 4797, *Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions*.

However, if you get such property or a copyright to it in any other way, the amounts you get for granting the exclusive use or right to exploit the

MEMORANDUM

Sen. Sturgulewski
State of Alaska

TO: See Distribution

DATE: March 7, 1988

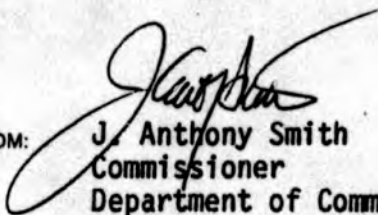
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SUBJECT: Comments on Various
Economic Recovery
Proposals

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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3488c

MODERATE RISK

BIDCOs

Purpose

To help catalyze in Michigan the development of a new industry of private financial institutions, to fill the moderate risk/moderate return gap between the relatively low risk/low return financings that banks are positioned to provide and the high risk/high return financings that venture capitalists provide. While the Capital Access Program gives banks an important new tool to narrow that gap, there is a limit to how far banks, given their capital structure and regulatory system, can go. BIDCOs, over time, can eliminate the rest of the gap.

Program Description

The Michigan BIDCO Act, adopted in 1986, provides for licensing and regulation of business and industrial development corporation (BIDCOs) by the Michigan Financial Institutions Bureau, as a new class of private financial institution. The licensing and regulation system is not designed to prevent BIDCOs from taking risk, but instead focuses on preventing fraud, conflict of interest and mismanagement, and in promoting accurate recordkeeping and appropriate communication with shareholders. BIDCOs will not take deposits, but would get their capital from equity investments in the BIDCO, and by the BIDCO borrowing money. The prospect of BIDCOs being able to leverage their equity by borrowing money, perhaps over time achieving debt to equity ratios of up to 3 to 1, can play a key role in enabling BIDCOs to address the moderate risk/moderate return niche, while yielding good returns to the equity investors in the BIDCO.

BIDCOs have substantial flexibility in the types of financing tools they can use, e.g., subordinate loans with equity features, royalty financing for product development, straight equity investments, and guaranteed loans under the SBA 7(a) program. It is anticipated that among the various BIDCOs formed in Michigan there will be substantial diversity in geographic focus, as well as diversity in size, market, financing vehicles, capitalization, and approach.

While investing in BIDCOs should be a good investment, yielding a good return with relatively low risk, it is not easy to raise equity capital for something novel such as a BIDCO. To catalyze the process, the MSF is prepared to make equity investments in BIDCOs, contingent on BIDCO organizers raising at least \$2 in private equity for every \$1 of MSF equity. To give a boost to private institutional investors, the MSF is also prepared to take an extra portion of the downside risk in the unlikely event of a failure or liquidation of a BIDCO. Moreover, the MSF's stock in a BIDCO will be nonvoting stock, in order to emphasize the status of BIDCOs as private institutions, with private decision making on their loans and investments. The MSF will invest a maximum of \$2 million in any one BIDCO.

Public Funds

The MSF Board to date has allocated \$12,000,000 to be invested in BIDCOs. This would catalyze the development of a number of BIDCOs in Michigan, with total initial equity capital likely exceeding \$40 million, which could then be leveraged many times over. Taking into account the private equity that will be raised, the potential of BIDCOs to borrow money, the sale of guaranteed portions of SBA loans, and the ability of BIDCOs to attract additional capital to financings, it is estimated that the MSF could leverage its resources, over time, by 40 to 1. Ultimately the MSF will seek to sell its stock in BIDCOs at a profit, leaving behind an industry of permanent, ongoing institutions operating without any MSF investment.

Eligible Users

Any Michigan business.

How to Participate

Prospective BIDCO organizers apply to the MSF for an investment commitment, submitting a detailed business plan. The MSF's commitment can be an up-front commitment which would then help the prospective BIDCO raise the private equity. Once BIDCOs are formed, Michigan businesses would deal directly with the private BIDCO. As of June, 1987, the MSF had made investment commitments to two BIDCOs which are expected to be operational later in 1987. Numerous other groups are considering forming BIDCOs.

Contact

Jim Paquet, MSF (517/373-7550)

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Contact

Jim Paquet, MSF (517/373-7550)

Alliance Bank

March 19, 1988

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

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Fred H. Burrow", written over a circular stamp or seal.

Fred H. Burrow
President

Enclosure

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

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

Background

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

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

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

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

The Proposal

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

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

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

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

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

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

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

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

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

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

Under the terms of the Distribution Agreement, the Trustee will

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

- a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.
- b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

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

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

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

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

- a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of trust property and of any modifications, amendments or extensions of obligations owing the Trust.
- b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.
- c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Assets.
- d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.
- e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:
 - i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

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

Assistance from the State of Alaska

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

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

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

Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management

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

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

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rates as posted from time to time.
2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.
3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.
4. Under no circumstances may the Trustee sell with less than a 5% deposit.

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

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

Fees to the Trustees

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

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

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

March 17, 1988

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



Official Business

Alaska State Legislature

Senate

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

March 22, 1988

Dr. Lester C. Thurow
Dean
School of Economics
Massachusetts Institute of Technology
E52-473
Cambridge, Massachusetts 02139

Dear Dean Thurow:

Thanks again for your willingness to examine the enclosed materials and confer with me again, with a view to providing advice to the Legislature of Alaska.

By this letter, I want to reiterate the concerns that led me to consult you on these matters.

The economy of the "railbelt" -- the region of Alaska which lies between Seward and Fairbanks, and includes Anchorage (where I come from) -- is in shambles today. Some observers think that things are "bottoming out", and others foresee more disasters ahead.

Some observers say the Legislature should do nothing, and argue that it was in part policies of state government which precipitated the present crisis. I think that they mean that at the peak of the oil boom, the legislature authorized subsidies for home construction and home ownership, and created loan programs which provided financing for office buildings.

It is also argued that if more banks fail, there is no reason for legislative concern; when the market warrants additional institutions, they will come to Alaska (and Alaska does allow interstate bank operations).

It is contended, too, that the present economic plight has "winners" as well as "losers". For example, the "winners" are said to be tenants of apartments whose rental rates have declined, or small business people who have smaller overheads today because of the prevailing economic downturn. The "losers" are portrayed as investors, or "speculators", people who took risks and should understand that capitalism can be harsh, or even cruel, but that it is not government's business to "bail out" those who may not have been "prudent".

Of course, there is a contrary view that more bank failures will promote a very undesirable oligopoly in financial services, notwithstanding the survival of credit unions. There is also concern that unless the state works to stabilize

property values, there will be a "downward spiral" that will further erode the tax base for local governments, cause more people (including small businesses) to be "under water", produce more layoffs (in both public and private sectors), have adverse psychological effects, and reduce the liquidity and lending capacity of the banking system.

The tenant, some Alaskans will contend, who is enjoying lower rents is probably also making less money at the workplace, if he or she is even employed, and is likely to encounter reduced fringe benefits, such as health coverage. The small business renting office facilities at lower cost probably has reduced revenues, too, and a much tougher time getting working capital from lenders -- especially if the value of any collateral which the business offers is reduced in the present economy.

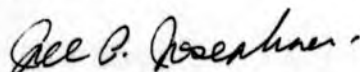
After you have reviewed the materials attached, I would appreciate another call at (907) 465-4525. We could then discuss how, when, and under what conditions you might be willing to participate with senators and representatives by teleconference. I should add that I have talked to the President of the Senate, Senator Jan Faiks, the Majority Leader of the House of Representatives, Representative Max Gruenberg, and the co-chair of the Senate Committee on Economic Recovery, Senator Arliss Sturgelewski, and they are all interested in receiving any comments or recommendations you might have.

Should you have any questions, or if there are other materials I can supply, please don't hesitate to let me know.

Thank you for your interest and responsiveness to my request. As a lay person, I have been an admirer of your writings and commentary in The New York Review of Books and other periodicals and forums, and I value very much any advice you can give us. I find that all of us here, regardless of party affiliation, are interested in doing what makes good public policy sense. The economic situation, perhaps, is in a way bringing out the best in Alaska's elected officials because the situation is too serious for "business as usual".

With best wishes, I am

Sincerely,



Joe P. Josephson

cc: Hon. Jan Faiks
✓ Hon. Arliss Sturgelewski
Hon. Lloyd Jones
Hon. Max Gruenberg